# Education Tax Breaks Parents of College Students Should Know About

Take a crash course on these credits, deductions and savings plans

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If you're the parent of a college student or a soon-to-be college student, you know one thing for certain: College costs are steep and getting steeper. There are ways to offset those costs, like student loans and scholarships, of course. But many families also may qualify for an education tax credit or deduction.

Here are six ways to give yourself a tax break while saving and paying for your kids' higher education.

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## If your child is already in college

**American Opportunity Tax Credit (AOTC).** Formerly called the Hope Scholarship Tax Credit, the AOTC can be claimed on the first $4,000 of qualifying undergraduate education expenses, such as tuition, textbooks and course supplies. You can claim up to $2,500 per eligible student in the family — 100 percent of the first $2,000 of a student's expenses and 25 percent of the second $2,000 for a maximum $2,500 credit.

The credit can be taken for four years only, so fifth-year seniors won't qualify if the credit has already been claimed. For the full credit, your adjusted gross income (AGI) must be less than $80,000 for a single head of household (phases out at $90,000) or $160,000 for married couples filing jointly (phases out at $180,000). Those who earn more or are married and filing separately don't qualify.

**Lifetime Learning Credit (LLC).** This credit is worth up to $2,000 per tax return (20 percent of the first $10,000 toward tuition and other qualifying expenses). In other words, one credit per family. "If you have triplets, claiming the AOTC for sending them to college will be a better deal" than the LLC, says Barbara Weltman, attorney and author of "J.K. Lasser's 1001 Deductions and Tax Breaks 2016: Your Complete Guide to Everything Deductible."

The LLC is more flexible than the AOTC because it can be claimed for undergraduate, graduate and professional degree programs in eligible institutions, including courses for job skills, and there's no limit on the years you can claim it. You also don't have to be pursuing a degree as with the AOTC.

For 2015's full credit, your AGI can't be over $55,000 for single filers or $110,000 married filing jointly. This credit is not refundable, but you can apply it toward your tax bill. Married and filing separately couples don't qualify.
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**Tuition and Fees Deduction,** aka "above the line tuition deduction." This tax deduction expired at the end of 2014, but it likely will be extended for 2015, Weltman says.

It allows you to deduct up to $4,000 from your income for qualifying tuition expenses, lowering your AGI, and can be taken for an unlimited number of years (if Congress continues to extend it). As with the tax credits, your income must qualify. For the full deduction, you can't earn more than $65,000 (single) or $130,000 (filing jointly). The deduction reduces to $2,000 if you earn up to $80,000 (single) or $160,000 (joint). If married and filing separately, you don't qualify.

Be aware the IRS doesn't allow double dipping. You can't claim both credits and the deduction on the same return for the same student or expenses. For families with students in their first four years of college, the AOTC is likely a better bet, but Weltman recommends consulting a tax advisor because choosing the best option is complicated and depends on your financial situation.

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## If you're saving for college

**529 plan**. Nearly every state offers a 529 education savings plan for college (some states have more than one). The money can be used for any qualifying institution in the country. Many states offer tax incentives for contributing, and when you take money out to pay for college, that money is not taxed.

**Prepaid tuition plan.** With these state-sponsored plans, you buy a percentage of a year's tuition with after-tax dollars, usually at your top state university's tuition rate, which will always be worth the same percentage in future years when costs have increased. In essence, you're locking in tomorrow's tuition cost at today's price — although it's a tad more complicated than that.

**Coverdell account:** This savings plan allows contributions of up to $2,000 per year. Funds withdrawn to pay for qualified education expenses are not taxed. But check out their upper income phase-outs (and ways to work around them) to make sure it's the right kind of account for you.

One last tip: For some heavy reading on tax credits and savings plans, check out IRS Publication 970, Tax Benefits for Education.

*Related:* **How Much Money Should I Save for College?**

*Joanna Nesbit is a freelance writer specializing in education, parenting, lifestyle and family travel.*

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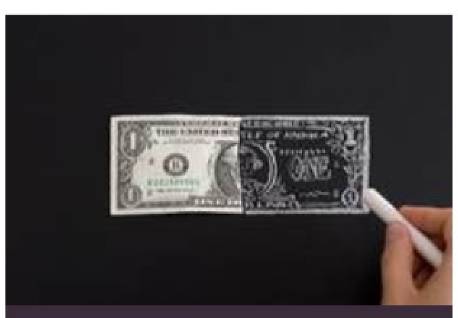
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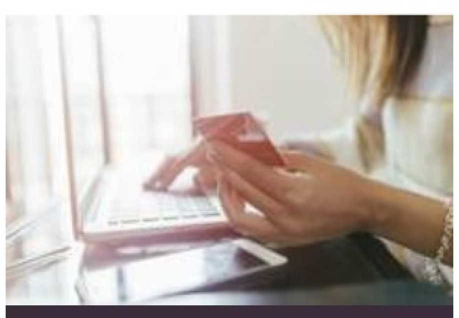
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