

“Before, it was almost a no-brainer to claim the Hope Credit. But for 2003 tax returns, now it may be a better tax advantage to claim the Lifetime Learning Credit.”

— Eileen Brewer, Tax Research and Training Specialist

## How Can I Benefit from Tax Credits and Deductions for Higher Education Expenses?

The cost of a college education today can put the average American family into sticker shock. Expenses for state colleges average \$10,000 per year and private universities average more than \$22,000. While the numbers may be frightening for many taxpayers faced with paying for post-secondary education, there is help in the form of two education credits and one education deduction.

The following chart summarizes the Hope Scholarship Credit, the Lifetime Learning Credit and the Higher Education Deduction.

(Keep in mind that typically, *tax credits* are more beneficial than tax deductions because credits provide a dollar-for-dollar reduction of your taxes owed. *Deductions* reduce the amount of your taxable income and, therefore, the actual benefit depends on the taxpayer’s tax bracket: 10, 15, 25, 28, 33 or 35 percent.)

	Hope Credit	Lifetime Learning Credit	Higher Education Deduction
<b>Eligible expenses<sup>1</sup></b>	Tuition and related fees. <sup>2</sup> Must be paid as part of a degree program or other certified credential.	Tuition and related fees to any eligible institution to acquire or improve job skills. <sup>2</sup>	Same as Lifetime Learning Credit.
<b>Eligible student</b> (Taxpayer, spouse, or dependent)	Student must be a freshman or sophomore at the beginning of the calendar year who is enrolled at least half-time for at least one academic period; no felony drug conviction.	No course load requirement; available for unlimited number of years of qualified post-secondary education.	Same as Lifetime Learning Credit.
<b>Tax benefit</b>	100% of first \$1,000 of qualified expenses; 50% of next \$1,000 of qualified expenses; maximum of \$1,500 per eligible student.	20% of first \$10,000 of qualified expenses; maximum \$2,000 per tax return.	Maximum deduction: \$3,000 per eligible student.
<b>Modified Adjusted Gross Income (MAGI) Limits</b>	Credit decreases for MAGIs between \$41,000 and \$51,000; those with MAGI > \$51,000 are not eligible; (decreases for MAGIs between \$83,000 and \$103,000 for married taxpayers filing jointly; joint filers with MAGI > \$103,000 are not eligible.)	Same as Hope Credit.	Disallowed for returns with MAGI > \$65,000 (\$130,000 for married taxpayers filing jointly).

<sup>1</sup> Expenses paid for with tax-free educational grants or scholarships or tax-free earnings distributed from an education savings account or qualified tuition program do not qualify.

<sup>2</sup> Fees for supplies, books, and equipment, if must be paid to the institution and required for attendance. Education involving sports, games or hobbies do not qualify unless they are part of a degree program