

Roundup of Higher Education Tax Breaks

The cost of attending college continues to rise, but a family may be able to realize some benefits at tax return time. Here is an overview of the key tax breaks available on 2010 returns.

Higher education tax credits: A taxpayer may claim one of two tax credits for qualified higher education expenses, but both credits have been phased out for high-income taxpayers.

The maximum American Opportunity Tax Credit (formerly the Hope Scholarship Credit) is \$2,500. This credit is now available for all four years of study, not just the first two years. For 2010 returns, the credit phases out for joint filers with a Modified Adjusted Gross Income (MAGI) between \$160,000 and \$180,000; between \$80,000 and \$90,000 for single filers.

The maximum Lifetime Learning Credit is \$2,000. Unlike the American Opportunity Tax Credit, the Lifetime Learning Credit cannot be claimed on a per-student basis. For 2010 returns, this credit for joint filers phases out at a MAGI between \$100,000 and \$120,000; between \$50,000 and \$60,000 for single filers.

Tuition and fees deduction: In lieu of an education credit, a taxpayer may be able to deduct a portion of college tuition and other qualified fees. The maximum annual deduction is \$4,000. A deduction of up to \$2,000 is available to joint filers with a MAGI that does not exceed \$160,000; \$80,000 for single filers. Note: These dollar thresholds are not subject to annual cost-of-living adjustments.

Remember that a taxpayer may claim either higher education credit or the tuition deduction, but not both. This decision must be made when the individual's 2010 tax return is filed.

Student loan interest: The tax law allows a maximum annual deduction of up to \$2,500 for interest paid on student loans, but this deduction has also been phased out. For 2010 returns, the deduction for joint filers is phased out at a MAGI between \$120,000 and \$150,000 for joint filers; between \$60,000 and \$75,000 for single filers.

U.S. Savings bond interest: Interest from Series EE Bonds issued after 1989 to an individual age 24 or older may be completely tax-free if the bonds are used to pay for qualified higher education expenses. However, as with the other tax breaks discussed above, this special tax exclusion has been phased out for many taxpayers. For 2010 returns, the phaseout range for joint filers is between \$105,100 and \$135,100 of MAGI; between \$70,100 and \$85,100 for single filers.

With astute planning, parents and students can maximize the available tax breaks on 2010 returns. Consult an experienced professional today.