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Education Tax Credits: What You Need to Know

Education costs can be very limiting, but tax credits can help reduce the financial burden of higher education by lowering your tax bill. Being aware and knowing how educational tax credits work can help maximize your savings. The two most common credits are the **American Opportunity Tax Credit (AOTC)** and the **Lifetime Learning Credit (LLC)**. Here's what you need to know about each, how to qualify, and whether the parent or student should claim the credit.



The American Opportunity Tax Credit (AOTC)

What It Is: The AOTC offers up to \$2,500 per eligible student per year for the first four years of higher education. It is 40% refundable, meaning up to \$1,000 can come back to you as a refund, even if you do not owe taxes. This covers tuition, fees, and court materials.

How to Qualify: The student must be pursuing a degree or recognized credential and enrolled at least half-time. Eligibility for the credit depends on your income level – you may qualify for the full credit, a partial credit or none at all based on your earnings.

Who Should Claim It: Typically, if the parent is claiming the student as a dependent, then the parents claims the credit. However, if the parent's income exceeds the MAGI limits or they don't need the credit, the student (if not claimed as a dependent) can take it on their own return.

How to Apply: File Form 8863, Education Credits, with your tax return.

The Lifetime Learning Credit (LLC)

What It Is: The LLC provides up to \$2,000 per tax return (not per student) for qualified education expenses. It can be used for undergraduate, graduate, or professional courses, as well as courses to improve job skills from an accredited institution.

How to Qualify: There's no limit on the number of years you can claim the LLC. Eligible expenses include tuition and fees but not books or supplies unless required by the institution. Eligibility for the credit depends on your income level – you may qualify for the full credit, a partial credit or none at all based on your earnings.

Who Should Claim It: As with the AOTC, the parent typically claims the credit if the student is a dependent. If the parent's income is too high to qualify, the student can claim it, provided they aren't listed as a dependent.

How to Apply: File Form 8863 with your tax return.

Deciding Who Should Claim the Credit

To determine whether the parent or student should claim the credit, consider these factors:

1. **Dependency Status:** If the student is claimed as a dependent, only the parent can take the credit.
2. **Income Limits:** If the parent's income exceeds the MAGI limits, the student may be eligible to claim the credit if they file their own return and aren't claimed as a dependent.
3. **Use 529 plans wisely:** Avoid double-dipping—expenses paid with the tax-free 529 plan withdrawals cannot be used for these credits.

Tips for Success

- **Claim Only One Credit Per Student:** You can't claim both the AOTC and LLC for the same student in the same year. Choose the one that provides the biggest benefit.
- **Keep Good Records:** Retain receipts such as tuition, fees, and books as well as Form 1098-T from the educational institution to support your claim.
- **Work with a Tax Professional:** Complex rules can make it tricky to decide who should claim the credit. Professional advice ensures you maximize your tax benefits.

Education tax credits are a valuable tool for making higher education more affordable. Whether you're a parent or a student, knowing how to qualify and deciding who should claim the credit can make a big difference.

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