

Federal Tax Benefits For Education Information Packet

2010

Georgetown University Law Center
Financial Aid Office

Financial Wellness Series

The information contained herein is general in nature and is not intended as legal or tax advice.

THIS PACKET PROVIDES GENERAL INFORMATION ONLY.

Introduction to Student Tax Reductions

Students have an array of options that may reduce their federal (and state or DC, if applicable) tax burden. The most common benefits are the:

- Lifetime Learning Tax Credit
- Student Loan Interest Deduction
- Tuition and Fees Deduction
- Earned Income Tax Credit

All of these options are explained in more detail at the end of this packet. The materials in this packet are provided as a resource to help Georgetown Law students determine which benefits may apply in their particular situations. The pages regarding tax reduction options are an overview. The pertinent IRS forms required and publications available are listed for each option. **For further guidance on your specific tax circumstances, contact the IRS or a tax preparer.**

To File or Not To File

You should file taxes if any of the following apply:

- You would file as single and have earned more than the Standard Deduction of \$5,700 added to the Standard Exemption of \$3,650 (\$9,350) or you would file as married and with your spouse earned more than the Standard Deduction of \$11,400 plus other applicable exemptions.
- You have had federal taxes withheld and you will be due a refund (especially if your income is below \$9,350)
- You qualify for the Earned Income Tax Credit (discussed later)

Refer to the IRS for more details at www.irs.gov/individuals/

Forms You Will Need to File Your Taxes

The documents you will need to file your taxes include, **but are not limited to:**

- **All W-2 forms**
Mailed to you by your employer.
- **1098-E**
Mailed to you by your lender. Students who have capitalized or paid interest on their student loans during the tax year will receive a 1098-E.
- **1098-T**
Mailed to you by the Main Campus Student Accounts Office. Students who have tuition billed during the tax year will receive a 1098-T.
- **1099 forms**
Mailed to you by payers of certain non-wage income (such as banks reporting interest income on 1099-INT)



How to File

Most students have income situations simple enough to eliminate the need to pay a “professional” to complete the tax return. The IRS, in conjunction with many online tax preparers, has continued its successful “Free File” program. This program allows a taxpayer to electronically file a federal tax return at no cost. Please note that although a charge may be assessed to file a state tax return through most of these programs, state taxes may instead be filed directly and also typically for free at most state websites, including those of DC, VA and MD.

- Free File is a service offered by companies for taxpayers with an Adjusted Gross Income (AGI) of \$57,000 or less.
- Carefully review the free offer description before starting your return. Individual company offers may be limited to specific states and income levels.
- Each company has a description of their eligibility criteria for preparing and e-filing your federal tax return for free.
- When choosing a company, be sure to link to the company's web site through www.irs.gov. By going directly to a company's web site, you may not get the free service.
- You are under no obligation to buy any products or services.

For more information and/or to file your federal taxes, go to www.irs.gov and click on the "Free File" link.

Some tax preparers, including www.taxact.com and TurboTax, are offering a free federal filing service for all taxpayers, regardless of income. (State returns are additional.)

The online tax preparation sites help you complete the tax return through an interview process. As long as you have the appropriate forms, such as those listed above, you can probably handle this yourself. These sites also offer the ability to "test drive" by entering your data. Should you become uncomfortable with the online process, you may always seek other assistance. It is important to review the information provided to determine which option is best for you.

In addition, the IRS also makes "Free File Fillable Forms" (not e-file, but more convenient than paper forms) available on www.irs.gov for all taxpayers.

Be Prepared for an Audit

Once you have finished entering the data for the federal and state tax returns, make sure that you print and keep a copy, along with all supporting documents, for your records for at least seven years. According to IRS Publication 552, the IRS can audit a return three years after the filing date or two years after payment is made, whichever is later. The time limit is extended to six years for cases of underreported income of 25% or more and there is no time limit for fraudulent filings.

More Information About the 1098-T

Each year, Main Campus Student Accounts issues a 1098-T to students, which details the numbers required to complete Form 8863 to claim the Lifetime Learning Tax Credit. The good news is that the online tax providers will simply ask you questions and complete the form electronically for you. Should you have any questions regarding your Form 1098-T, please contact Main Campus Student Accounts at 202-687-7100.

Special Notice for May Graduates regarding the 1098-T

To provide Georgetown Law students the most flexibility regarding the Lifetime Learning Tax Credit, the Financial Aid Office schedules Spring semester loan disbursements in early January instead of late December. Since bills for the Spring semester are generated in December of the prior year, Student Accounts will not send a 1098-T to May graduates. If you borrowed loans in the Spring semester, this means that you may be able to claim a tax credit for your last semester even though Student Accounts did not send you a Form 1098-T. Print a copy of your current semester bill from MyAccess showing your loan credits for your records. For many graduates, this means up to \$2,000 more in your federal tax savings, but please see IRS Publication 970 for more details.

Make Sure Your Social Security Number Hasn't Been Compromised

TrustedID is a company that sells services to consumers to give them more control over who sees their credit reports. It has compiled a database of compromised numbers that could already be traded or sold online. You may search the database for your social security number by going to www.stolenidsearch.com

Lifetime Learning Credit

Cannot be used in conjunction with the Tuition and Fees Deduction

The Benefit:	An education credit that can help to reduce your taxes. (Note: Generally, a tax credit is more financially beneficial than a tax deduction.)
Program Limit:	Annual \$2,000 credit
Qualified Expenses:	<p>Tuition and fees required for enrollment/ attendance at an eligible educational institution that you paid between January 1 and December 31 of the year for which you're filing your tax return for attendance during that year.</p> <p>Also, any tuition and fees paid in the current tax year for an academic period that begins within the first three (3) calendar months of the following year may be included.</p> <p>Course material fees are included as well, but only if required for the course and are paid directly to your educational institution.</p>
Excluded Expenses:	Books and supplies; room and board; student activity fees; athletics (unless the course is part of the degree program); insurance (including required health insurance); equipment; medical expenses (including student health fees); personal, living, or family expenses
Allowable Education:	All undergraduate, graduate, and continuing education studies (including certificate programs and individual courses).
Enrollment Requirements:	Enrolled in an undergrad, grad, certificate, or other recognized program; enrolled to acquire or improve job skills
Conditions/Restrictions:	N/ A
Income Limits:	For single tax filers, \$50,000 – \$60,000 before benefits phase out. For joint filers, \$100,000 - \$120,000.
Eligibility:	Either the student OR the person claiming the student as a dependent. A student who is claimed on someone else's tax return as a dependent cannot also claim this credit on their own tax return. Note: Married persons filing separately cannot claim this credit.
Forms Needed:	IRS Form 8863. Also see IRS Publication 970 for more info on Tax Benefits for Education.
Future Concerns:	N/ A

Notes:

Tuition and Fees Deduction

Cannot be used in conjunction with Lifetime Learning Credit

The Benefit:	A deduction that can reduce the gross income amount on which your taxes are calculated. (Note: This tax benefit usually has a lesser impact on lowering your taxes than the Lifetime Learning Credit.)
Program Limit:	Annual \$4,000 max deduction
Qualified Expenses:	Tuition and fees required for enrollment at an eligible educational institution paid between January 1 and December 31 of the year for which you're filing your tax return for attendance during that year. Also, any tuition and fees paid in the current tax year for an academic period that begins within the first three (3) calendar months of the following year may be included. Course material fees are included as well, but only if required for the course and are paid directly to your educational institution.
Excluded Expenses:	Books and supplies; room and board; student activity fees; athletics (unless the course is part of the degree program); insurance (including required health insurance); equipment; medical expenses (including student health fees); personal, living, or family expenses
Allowable Education:	All undergraduate, graduate, and continuing education studies (including certificate programs and individual courses.)
Enrollment Requirements:	Enrolled at an eligible school during the tax year
Conditions/Restrictions:	Student need not be enrolled in a degree program or courses related to his/ her job. Note that you cannot claim both deduction and education credit for same student in same tax year.
Income Limits:	For single tax filers, \$65,000 for \$4,000 max deduction and \$80,000 for \$2,000 max deduction. For joint filers, \$130,000 for \$4,000 max deduction and \$160,000 for \$2,000 max deduction.
Eligibility:	The student OR the person claiming the student as a dependent. A student who is claimed on someone else's return as a dependent cannot claim this credit on their own tax return. Note: Married persons filing separately cannot claim this deduction.
Forms Needed:	IRS Form 8917. Line 19 on IRS Form 1040A. Line 34 on IRS Form 1040. (Taxpayer does not need to file an itemized return.) Also see IRS Publication 970 for more info on Tax Benefits for Education.
Future Concerns:	N/ A

Notes:

Student Loan Interest Deduction

The Benefit:	Deduction for paying your student loan interest on time (that is, when you're in repayment), which reduces the overall amount of tax you have to pay.
Program Limit:	\$2,500 deduction per borrower
Qualified Expenses:	Interest paid on a qualified student loan used to pay the costs of attendance at an eligible educational institution Costs of attendance include those expenses used to calculate a student's financial need in accordance with the Higher Education Act, including tuition, fees, room, board, books, equipment, and other necessary expenses, such as personal living and transportation.
Excluded Expenses:	N/ A
Allowable Education:	All undergraduate, graduate, and continuing education studies (including certificate programs and individual courses.)
Enrollment Requirements:	N/ A
Conditions/Restrictions:	Student must have been at least half-time student in degree program.
Income Limits:	For single tax filers, \$60,000 – \$75,000 before benefits phase out. For joint filers, \$120,000 - \$150,000.
Eligibility:	The borrower to whom the loan was made. However, a borrower who is claimed as a dependent on someone else's tax return cannot claim the deduction, nor may it be claimed by the person claiming the borrower as a dependent. Note: Married persons filing separately cannot claim this deduction.
Forms Needed:	Line 18 on IRS Form 1040A. Line 33 on IRS Form 1040. (Taxpayer does not need to itemize.) Also see IRS Publication 970 for more info on Tax Benefits for Education.
Future Concerns:	N/ A

Notes:

Earned Income Tax Credit

The Benefit:	Qualified filers will recover a portion of the taxes they've paid in a given tax year. In some cases, filers may even get a tax refund even if they didn't have to pay taxes.
Program Limit:	Currently, the maximum credit can reach \$5,657 depending on circumstances, including number of children in household.
Qualified Expenses:	N/ A
Excluded Expenses:	N/ A
Allowable Education:	N/ A
Enrollment Requirements:	N/ A
Conditions/Restrictions:	All wage or salary income, as well as any self-employment earnings, count toward the eligibility limits, as do investment earnings. Note that if you make more than \$3,100 in investment income, you cannot file for the earned income credit. Talk to a lawyer or tax professional before claiming this credit if you are dealing with child custody issues.
Income Limits:	A single filer's adjusted gross income must be less than \$13,440 if he or she has no children; \$35,463 with one child; \$40,295 with two children; and \$43,279 with three or more children. Married couples filing jointly are allowed to earn \$5,000 more in each of the categories and still claim the credit.
Eligibility:	<p>To qualify for the credit, a taxpayer must earn money, but not too much. Married couples who file separate returns are not eligible for the earned income credit. If you are married but your spouse did not live in your home for the last six months of the year, you may be able to file as head of household and take the credit.</p> <p>If you have no children, other eligibility requirements apply:</p> <ol style="list-style-type: none"> 1. Be at least 25, but not older than 65 at the end of the tax year for which you are making the claim. 2. Cannot be the dependent of another taxpayer. 3. Live in the United States for more than half of the tax year.
Forms Needed:	Credit can be claimed on IRS Forms 1040, 1040A, and 1040EZ. Refer to IRS Publication 596 (Earned Income Credit) or to www.irs-eitc.info for specific details about claiming this credit.
Future Concerns:	N/ A

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