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## Tax Credit Helps Pay for Higher Education Expenses

The American Recovery and Reinvestment Act was passed in early 2009 and created the American Opportunity Credit. This educational tax credit – which expanded the existing Hope credit – helps parents and students pay for college and college-related expenses.

Here are the top nine things the Internal Revenue Service wants you to know about this valuable credit and how you can benefit from it when you file your 2009 taxes.

1. The credit can be claimed for tuition and certain fees paid for higher education in 2009 and 2010.
2. The American Opportunity Credit can be claimed for expenses paid for any of the first four years of post-secondary education.
3. The credit is worth up to \$2,500 and is based on a percentage of the cost of qualified tuition and related expenses paid during the taxable year for each eligible student. This is a \$700 increase from the Hope Credit.
4. The term "qualified tuition and related expenses" has been expanded to include expenditures for required course materials. For this purpose, the term "course materials" means books, supplies and equipment required for a course of study.
5. Taxpayers will receive a tax credit based on 100 percent of the first \$2,000 of tuition, fees and course materials paid during the taxable year, plus 25 percent of the next \$2,000 of tuition, fees and course materials paid during the taxable year.
6. Forty percent of the credit is refundable, so even those who owe no tax can get up to \$1,000 of the credit for each eligible student as cash back.
7. To be eligible for the full credit, your modified adjusted gross income must be \$80,000 or less -- \$160,000 or less for joint filers.
8. The credit begins to decrease for individuals with incomes above \$80,000 or \$160,000 for joint filers and is not available for individuals who make more than \$90,000 or \$180,000 for joint filers.
9. The credit is claimed using Form 8863, Education Credits, (American Opportunity, Hope, and Lifetime Learning Credits), and is attached to Form 1040 or 1040A.

Source:irs.gov