

Securities America
Michael Sullivan, CFP
41 West Bridge St.
Suite D
Dublin, OH 43017
(614) 734-WLTH(9584)
mikes@wealthcoachfinancial.com
wealthcoachfinancial.com



What are the Hope credit and the Lifetime Learning credit?

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Answer:

The Hope credit (renamed the American Opportunity credit) and the Lifetime Learning credit are tax credits for taxpayers who pay certain higher education costs. These credits depend on the amount of qualified tuition and related expenses you paid in a given year, as well as the level of your modified adjusted gross income (MAGI). The credits are available for qualified education expenses that you, your spouse, or your dependent incur at an eligible educational institution. The IRS has provided specific guidance regarding the definitions of eligible educational institution and qualified expenses.

The American Opportunity credit is worth up to \$2,500 per student for qualified tuition and related expenses incurred during the first four years of post-secondary education. The credit does not apply to graduate or professional-level courses. To qualify, you must be enrolled in a degree or certificate program at least half-time, and you must not have a felony drug conviction. The credit is available for each eligible student in the household. The credit is calculated as 100 percent of the first \$2,000 of qualified tuition and related expenses, plus 25 percent of the next \$2,000 of such expenses. A portion of the credit may be refundable, which means you may be able to have a portion of the credit refunded to you if total tax credits exceed total tax liability.

The Lifetime Learning credit is worth up to \$2,000 per year for qualified tuition and related expenses incurred for course work at eligible educational institutions. You need only be enrolled in one or more courses to qualify. The credit is also available for graduate and professional-level courses. Furthermore, courses related to sports, games, or hobbies may qualify if they are part of a course of instruction to acquire or improve job skills. The Lifetime Learning credit is equal to 20 percent of the first \$10,000 of your qualified tuition and related expenses, up to a maximum credit of \$2,000 per tax return.

The maximum American Opportunity tax credit is available to single filers with a MAGI below \$80,000 and to joint filers with a MAGI below \$160,000. A partial credit is available to single filers with a MAGI between \$80,000 and \$90,000 and to joint filers with a MAGI between \$160,000 and \$180,000. The maximum Lifetime Learning tax credit is available to single filers with a MAGI below \$52,000 and to joint filers with a MAGI below \$104,000. A partial credit is available to single filers with a MAGI between \$52,000 and \$62,000 and to joint filers with a MAGI between \$104,000 and \$124,000. These credits are not available to you if your filing status is married filing separately.

Be aware that you cannot claim both credits for the same student in the same year. For additional information, see IRS Publication 970 or consult a tax professional.

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