

## WORKING WITH THE NEW HOPE SCHOLARSHIP CREDIT AND THE LIFETIME LEARNING CREDIT

By DON STALLINGS, CPA

The two new education credits, the Hope Scholarship Credit and the Lifetime Learning Credit, are helping many low and middle-income taxpayers pay for college and job skill improvement expenses. The phase out of benefits begins when the taxpayer's modified adjusted gross income reaches \$ 80,000 and is fully phased out when AGI reaches \$100,000 for joint filers (\$40,000 and \$50,000 for single filers).

The Hope Scholarship Credit is a nonrefundable tax credit of 100% of the first \$ 1,000 and 50% of the next \$1,000 for each of the first two years of post-secondary tuition and fees (but not books, room, or board). The maximum annual credit is \$ 1,500. This credit is for students who must be enrolled on at least a half-time basis in a program leading to a degree, certificate, or other recognized educational credential at an eligible education. The credit is per student per year, so a family with two children who qualify can receive a Hope credit of up to \$3,000.

The Lifetime Learning Credit is a nonrefundable tax credit of 20% of up to \$ 5,000 of qualified tuition and fees. The maximum credit is \$1,000 for the years 1998-2002 and increases to \$2,000 in 2003 and after. This credit is for undergraduate, graduate, professional degree students and students acquiring or improving their job skills and are enrolled in one or more courses. Unlike the Hope Credit, the Lifetime Learning Credit is per taxpayer; not per student, so that a family can qualify for only \$1,000 per year. The lifetime learning credit can be claimed for an unlimited number of years.

Both credits are available for education expenses of the taxpayer, taxpayer's spouse, or taxpayer's dependents. If the parents are allowed a dependency exemption for their child, the child isn't allowed to take either credit, and any qualifying expenses paid for by the child will be treated as paid for by the parent. This may seem unfair to children who are paying for their education expenses, but their parents are paying for over half their support and are claiming a dependency deduction on the parent's return.

The lifetime learning credit should be useful to those taxpayers whose job improvement expense deductions had been lost due to the 2% AGI limit on miscellaneous on itemized deductions. School teachers are one example that comes to mind.

Form 8863 is used to claim the education credits. The form computes the allowable credit and also applies adjusted gross income phase-outs.

There are many other limitations and strategies dealing with these credits too numerous to address in this limited space, so you should consult with your CPA if you have expenses you think might qualify for the credits. It is ironic that Congress has made the rules dealing with education credits so complex that one needs an advanced degree to figure them out.

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