



## **HOPE & LIFETIME LEARNING CREDITS**

With an expected budget of \$31 billion, a new provision in the tax laws took hold in 1998, to help foster higher education. This part of the Taxpayer Relief Act involves two related tax credits: The HOPE scholarship credit, and the Lifetime Learning credit. These credits are one part of the new "Education Trilogy" package that was recently enacted. The other two parts are the Education IRA and the Student loan interest deductibility.

All three of these enactments are designed primarily to help low and middle income families deal with the costs of higher education. In regard to the HOPE and Lifetime Learning credits, taxpayers will be eligible for a direct credit against their federal income taxes of up to \$1,500 per year for higher educational expenses paid on behalf of a qualifying student. A brief rundown of these two credits follows.

### **HOPE Scholarship Credit**

Beginning with expenses paid after December 31, 1997, this is a credit for the first two years of a higher educational program. The expenses must be for tuition and related fees for the taxpayer, taxpayer's spouse, or taxpayer's qualified dependent.

The credit can be up to \$1,500 per year for the first two years, based on a percentage formula equal to the sum of 100% of the first \$1,000 of tuition plus 50% of the next \$1,000 in tuition. So, to get the full \$1,500 credit, you would have to pay at least \$2,000 in qualified tuition expenses.

### **Lifetime Learning Credit**

Congress pegged this supplemental credit to go into effect as of July 1, 1998. This is a 20% credit on a maximum of \$5,000 of annual educational expenses for post-secondary schooling to improve or achieve job-related skills. This maximum educational expense amount will rise to \$10,000 by the year 2003.

This translates into a \$1,000 maximum credit against one's income taxes. Also, it is not limited to the first two years like the HOPE credit. Rather, it is for an unlimited number of years, so it can be used for graduate school programs as well.

### **How The Two Credits Interract**

Basically, the law says you cannot claim BOTH a HOPE and a Lifetime Learning credit for the same student during the same year. You must choose one or the other. Based on this, the most you can take on a tax credit per student per year is \$1,500 for the first two years, and \$1,000 thereafter.

So, if a taxpayer has more than 1 qualifying student in school at the same time, the HOPE credit will provide the most benefit.



## **Some Limitations And Caveats**

There are four major ways in which these credits may be reduced or totally eliminated for a taxpayer.

First, there is a phase out limitation based on your modified adjusted gross income (AGI). For single filers, the credit begins to get reduced starting at a \$40,000 income level, and disappears entirely at \$50,000. For joint filers, these limitation numbers begin at \$80,000 and end at \$100,000.

Second, these credits are reduced by scholarships, grants, and other tax free educational assistance programs the student receives.

Third, you can't take either of the credits in any year that you withdraw money from the new Education IRA plan to pay for the same educational expenses.

Fourth, if you cash in certain Series EE Bonds to pay for the educational expenses, and you take the credits, the interest from these bonds may not be exempt from tax. So you may have to choose between taking the credits or exempting the bond interest.

As a final caveat, since these credits are relatively new, there are some relative unknowns as to how claiming them will affect the policies of the higher educational facilities themselves when it comes to their determinants for financial aid. Will they offset any financial aid to the student if these credits are being taken? And if so, how much? Only time will tell.

However, these credits are definitely a strong statement from the Federal Government to support higher learning. For low to middle income taxpayers, they can make a positive difference in the "bottom line" when it comes to educational expenses.