



Education Tax Benefits

Sprague & Jackson

ACCOUNTANTS AND ENROLLED AGENTS

The Seneca Building • 121 E Seneca St • Ithaca, NY 14850

David W. Sprague, EA, ABA Principal
Angie Jackson, EA, MSA Principal

Phone: (607) 273-5322

Fax: (607) 273-8138

Email: Admin@sprjac.com

Education Tax Benefits

If you pay tuition, fees, and other costs for attendance at an eligible educational institution for yourself, your spouse, or your dependent, you may be able to take advantage of one or more of the education tax benefits.

You can claim more than one education benefit in a tax year as long as you do not use the same expenses for more than one benefit.

Exception: Qualified expenses used to claim education benefits can also be used to eliminate the 10% penalty on premature IRA distributions.

For each student, you can elect for any year only one of the following benefits. For example, if you elect to claim the American Opportunity Credit for the student in 2023, you cannot use that same student's qualified education expenses to compute the Lifetime Learning Credit.

Education Deductions

Deductions reduce the amount of income subject to income tax. Deductions for education expenses include:

- Student loan interest deduction up to \$2,500 from gross income. Income limitations apply.
- Business deduction on Schedule C or F. You may be able to deduct the cost of education related to the business or farm activity.

Education Tax Credits

Tax credits reduce the amount of income tax you may have to pay. Income limitations apply. The education credits are claimed on Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits)*.

- American Opportunity Credit, \$2,500 maximum per student per year.
- Lifetime Learning Credit, \$2,000 maximum per tax return per year.

Income limits. The American Opportunity Credit and the Lifetime Learning Credit are both phased out at modified AGI between \$80,000 and \$90,000 (\$160,000 and \$180,000 Married Filing Jointly) in 2023.

Penalty-Free IRA Distributions

If you withdraw money from your IRA before you are age 59½, you are generally subject to a penalty of 10% of the distribution in addition to any tax that may be due on the distribution.

- The 10% penalty does not apply to traditional IRA or Roth IRA withdrawals if you use the money to pay qualified education expenses for yourself, spouse, or for any child or grandchild of yourself or your spouse.
- Qualified education expenses include tuition, fees, books, supplies, equipment, and special needs services required for enrollment or attendance at an eligible educational institution. Room and board for students enrolled at least half-time in a degree or certificate program may also qualify.
- Reduce qualified expenses by scholarships and other tax-free assistance the student receives, but not by gifts or inheritances.