

# *Sy Accountancy Corporation*

Member, American Institute of CPAs

704 Mira Monte Place, Pasadena, California 91101

Tel (626) 744-0200 • Fax (626) 744-0300 • vsy@victorsycpa.com • www.victorsycpa.com

## AMERICAN OPPORTUNITY CREDIT (HOPE EDUCATION CREDIT)

By Victor Sy, CPA

What used to be the **Hope Credit** has been expanded and renamed the **American Opportunity Credit**. The goal is the same: help you pay for college and college-related expenses.

**Here are 20 tips to help you benefit in 2009 and 2010 (extended to 2011 & 2012):**

1. The new American Opportunity Credit was **increased to \$2,500** (was \$1,800 under Hope Credit).
2. This is a credit for **each eligible student** (per family for the Lifetime Learning Credit of \$2,000).
3. This expanded credit can be claimed **for 2009 and 2010 only (extended to 2011 & 2012)**.
4. It can be claimed for expenses paid for any of the **first four years** of post-secondary education towards a degree or certificate program.
5. The expenses can be incurred for **you, your spouse, or dependent**.
6. The credit is based on a percentage of the cost of **qualified tuition and related expenses** which has been **expanded to cover required course materials (books, supplies and equipment)**. Credit does not apply to room and board, transportation costs, health fees, or insurance expenses.
7. Such expenses qualify only if **paid to the eligible educational institution** (payments to the bookstore do not count).
8. Taxpayers will receive a tax credit based on **100% of the first \$2,000 plus 25% of the next \$2,000** of tuition, fees and course materials paid during the taxable year with a maximum amount of \$2,500.
9. **Forty per cent 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.
10. The credit starts to **phase out** if your modified adjusted gross income reached \$80,000 or less (\$160,000 or less for joint filers). In other words, the credit begins to decrease for individuals with incomes above \$80,000 (\$160,000 for joint filers) and is phased out for individuals who make more than \$90,000 (\$180,000 for joint filers.). TIP: If you cannot take the credit because of the phase-out rules, consider having your dependent student file his/her own return and claim the credit. If your dependent does not have any income, consider employing your child or make gifts of appreciated stocks, and have the children sell these stocks and then pay their own tuition and related fees.
11. Credit may be claimed for 4 tax years, **even if a taxpayer had claimed the Hope credit in prior years**.
12. Credit can **reduce the AMT**.
13. Your tax returns must include the **taxpayer identification number** of the individual claiming the credit; otherwise, the credit is not allowed.
14. Married taxpayers must file a **joint return** to claim the credit.
15. You must **claim the student as your dependent** to be able to claim the credit.
16. Expenses paid by the student are **treated as paid by the parent**.
17. The student must pursue a course of study on **at least a half-time basis**. (A student who has been convicted of felony or possession/distribution of a controlled substance is disqualified.)
18. The credit is available in the taxable year the expenses are paid. Qualified tuition expenses paid with the **proceeds of a loan** are eligible for the credit when the loan is procured, not when it is repaid.
19. Courses must be taken at eligible educational institutions that offer credits toward **bachelor's degree, associate degree, vocational institutions** or other recognized post-secondary credentials.
20. Use **Form 8863**, Education Credits, (American Opportunity, Hope, and Lifetime Learning Credits)

**Development:** This credit was extended for 2 years through 2012 by the new Tax Relief Act (Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010).