

2009 Recovery Act: American Opportunity Education Credit

The *American Recovery and Reinvestment Tax Act of 2009* (2009 Recovery Act), which provides billions of dollars of tax relief, includes a tax credit for individuals seeking a college education. This provision may benefit you as a parent of a child working toward a college degree.

There are many federal tax incentives available to help reduce the costs of higher education. Some of these incentives offer tax breaks for current educational expenses, such as the above-the-line deduction for qualified tuition and related expenses, and the Hope scholarship and lifetime learning credits. In lieu of claiming the Hope scholarship credit, the 2009 Recovery Act provides an "American Opportunity" tax credit for 2009 and 2010.

Eligible taxpayers may claim an American Opportunity tax credit up to \$2,500. The credit is determined as 100% of the first \$2,000, and 25% of the next \$2,000 of tuition and related expenses paid during the year. Forty percent of the credit is refundable.

Unlike the Hope credit, the American Opportunity credit is not limited to the first two years of post-secondary education. Also, the American Opportunity credit covers "course materials" such as books. This credit phases out for taxpayers with adjusted gross income in excess of \$80,000 (\$160,000 for married couples filing jointly).

Educational incentives can provide significant tax relief for families. The American Opportunity credit is one of several tax options related to saving and paying for higher education. Some may be more beneficial than others in your specific circumstances. Maximizing the benefits of the education tax breaks requires careful planning, particularly because of the interrelationship between the rules that apply to each provision. We can help you sort through the options. Please call our office to arrange an appointment at your earliest convenience.