

COLLEGE PLANNING

Put A Dent In Your College Bills With These Federal Tax Breaks

(NAPSA)—The biggest financial gains from investments in a college education are made years after graduation, but some can be realized much sooner. In fact, you may be rewarded as soon as income tax time. Many education credits and deductions worth thousands of dollars can be claimed on 2010 federal income tax returns.

The American Opportunity and Lifetime Learning Credits are likely to result in the biggest tax rewards on 2010 federal tax returns. The following basic requirements apply to both credits:

- Filing status on the return cannot be married filing separately.
- The student must be you, your spouse or dependent for whom you claim an exemption.
- A dependent cannot claim the credits if claimed on another person's (e.g., parent's) return.
- If you do not claim the dependent exemption (even if entitled to the exemption), you cannot claim a credit based on that dependent's expenses.
- Claim credits on Form 8863 and file with your Federal 1040.

In addition, both credits cannot be claimed for the same student. Jessi Dolmage, spokeswoman for TaxACT, explains: "If multiple students are claimed on a return, the taxpayer should choose the credit that yields the biggest benefit for each student."

The American Opportunity Credit, scheduled to expire after 2010, is a modified version of the Hope Credit. It's worth up to \$2,500 for tuition, fees and course materials per student for the first four years of postsecondary education. Even if you have zero tax liability, you can get up to 40 percent as a refund. It phases out at higher incomes.

On the other hand, the Lifetime Learning Credit is worth up to 20 percent of the first \$10,000 in higher education expenses per family for an unlimited number of years. Like the American Opportunity Credit, it phases out at higher incomes.

Several other college and higher education tax breaks can also be claimed on 2010 federal tax returns.

2010 is the last year costs paid or incurred for computer technology, equipment and Internet service for students living at home count as a qualified expense for Qualified Tuition Programs (aka



Education credits and deductions could mean hundreds or thousands on your 2010 federal tax return.

529 Savings Plans). Items must be used by the beneficiary and beneficiary's family during the years enrolled at an eligible institution.

Up to \$2,500 in student loan interest paid each year for qualified higher education expenses can be deducted, even if you don't itemize. The deduction phases out at higher incomes and is reduced by non-taxable distributions from a Coverdell Education Savings Account, savings bond interest used for education expenses, and scholarships or veteran's education benefits. Married taxpayers filing separately and people claimed as a dependent on another return don't qualify.

Additional exceptions may apply to the aforementioned tax breaks, and other educational tax benefits exist for student loan cancellations and repayment assistance, Coverdell Education Savings Accounts, education savings bonds, employer-provided educational assistance and work-related education. Learn more about all education tax benefits in Publication 970 at www.irs.gov.

You can also use TaxACT's College Tax Whiz, a free interactive tool that breaks down 10 college tax benefits for 2010 returns, at www.taxact.com/college-tax-whiz. It explains the tax benefits, acceptable expenses, types of education and other key qualifiers in a question-and-answer format.

"College tax breaks can be tricky to navigate, but tax preparation solutions like TaxACT Free Federal Edition make it easy," says Dolmage. "The program will guide you through all education tax breaks and determine the best credit or deduction for each student." Learn more about TaxACT at www.taxact.com.