
THE IRS
WANTS YOU
TO KNOW

*Save
up
to
\$1500
on
college*

*Working to put
service first*



Department of the Treasury
Internal Revenue Service

Publication 3171 (1-00)
Catalog Number 265211



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Are you footing the costs of higher education for yourself or your family?

Save now—with either of two tax credits related to higher education. If you qualify, you can subtract the full credit from your federal income tax. This is a full, dollar-for-dollar credit, not just an exemption or deduction.

Or save ahead—with new IRA investment options that may maximize your savings.

The tax deduction for interest on student loans may also be helpful. This year, up to \$1,500 interest may be deducted.

Turn the page for the full facts. They're well worth your study.

Take Credit For Higher Education

HOPE Credit for undergraduates. Up to \$1,500 per student, per year.

The HOPE Credit applies only for the first two years of post-secondary education—such as college or vocational school. It does not apply to graduate and professional-level programs.

You're allowed 100% of the first \$1,000 of qualified tuition and related fees paid during the tax year, plus 50% of the next \$1,000—for a maximum credit of \$1,500 per eligible student, per year. The student must be enrolled at least half-time.

This applies to expenses paid after 12/31/97 for academic periods beginning after that date. See qualifications below.

The HOPE Credit—up to \$1,500 per student, per year.

The Lifetime Learning Credit—up to \$1,000 per year.

Reduce your federal income tax by the full amount you qualify for.

Lifetime Learning Credit for graduate or undergraduate study. Up to \$1,000 per year.

The Lifetime Learning Credit applies to graduate level and professional degree courses, including instruction to acquire or improve job skills, as well as undergraduate courses.

If you qualify, your credit equals 20% of the post-secondary tuition and fees you pay each year—for a maximum credit in 1999 of \$1,000 per year. (Note: In the year 2003, the maximum Lifetime Learning Credit will increase to \$2,000 per year.)

The Lifetime Learning Credit can be used for an unlimited number of years—starting with expenses paid after 6/30/98 for academic periods beginning after that date. See qualifications below.

You can't take both credits at once.

You cannot claim both the HOPE and Lifetime Learning Credits for the same student in the same year.

Qualifications for either credit:

You must pay post-secondary tuition and fees for yourself, your spouse, or your dependent. The credit may be claimed by the parent or the student, but not by both. However, if the student was claimed as a dependent, the student cannot claim the credit.

These credits are phased out for Modified Adjusted Gross Income above \$40,000 (\$80,000 for married filing jointly) and eliminated completely for Modified AGI of \$50,000 or more (\$100,000 for married filing jointly). If the taxpayer is married, the credit may be claimed only on a joint return.

The HOPE Credit is not allowed for a student convicted of a felony drug offense.

IRA Options Relating To Higher Education

Education IRA.

You can contribute up to \$500 a year, per child until the child turns 18. This is a non-deductible contribution. The amount of contribution allowed may be affected by certain income limitations.

Earnings from the Education IRA will grow tax-deferred, just as they would in any other IRA. Later, tax-free withdrawals can be made to pay for the child's qualified education expenses including tuition, books, room and board.

Special rules for traditional IRAs.

If you use the funds to pay qualified higher education expenses for yourself, your spouse, child or grandchild, you can make an early withdrawal from your IRA, paying the tax but not the usual 10% additional tax on early withdrawals.

*Do you have a child under 17?
Check out the Child Tax Credit as well.*

Even If You Don't Itemize— This Deduction Counts

Interest deduction for student loans—up to \$1,500.

You may be able to deduct up to \$1,500 interest on qualified student loans from total income on your 1999 return—even if you don't itemize deductions. The maximum deduction will increase by \$500 per year until it reaches \$2,500.

This deduction phases out for taxpayers with Modified Adjusted Gross Income of \$40,000 to \$55,000 if single—\$60,000 to \$75,000 if filing jointly.

For all the details, call toll-free 1-800-829-3676 to order our free IRS Publication 970, Tax Benefits for Higher Education. Also, check your 1999 income tax instructions and the educational or financial institution involved.

Questions?

Check our Web site at
www.irs.gov