



American Opportunity Tax Credit

The **American Opportunity Tax Credit** is a refundable tax credit for undergraduate college education expenses. This credit provides up to \$2,500 in tax credits on the first \$4,000 of qualifying educational expenses. The tax credit is scheduled to have a limited life span: it will be available only for the years **2009 through 2012**, unless Congress decides to extend the credit to other years.

Details of the new American Opportunity Credit

The credit is worth up to \$2,500 on the first \$4,000 of qualifying educational expenses, which include course materials as well as tuition. The American Opportunity credit applies to all four years of undergraduate college education. The credit is gradually reduced (or "phased out") for income from \$80,000 to \$90,000 (or \$160,000 to \$180,00 for joint filers). The tax credit is not available for people with incomes above the phase out range.

Up to 40% of the credit is refundable, meaning that it can generate a refund larger than the amount of payments you made.

Calculating the American Opportunity Tax Credit Amount

The amount of the American Opportunity tax credit is:

- ♦ 100% of the first \$2,000 in qualifying education expenses, plus
- ♦ 25% of the next \$2,000 in qualifying expenses.

For a maximum credit of \$2,500 based on \$4,000 in qualifying expenses.

Up to 40% of the American Opportunity credit is refundable. That means up to \$1,000 of the American Opportunity credit can be refunded to you, even if your tax liability is zero. This makes the American Opportunity credit potentially more valuable than the Lifetime Learning credit, which is non-refundable.

Qualifying for the American Opportunity Credit?

Individuals can claim the American Opportunity Credit for themselves or their dependents if the student is enrolled at least half-time in a college, university or other accredited post-secondary educational institution.

Available for the First Four Years of Post-Secondary Education

The American Opportunity Credit is available for the first four years of a student's post-secondary education, that is for the first four years of education after high school. The American Opportunity credit is not allowed if a student has already completed four years of college education in a previous year or if the student has already claimed the American opportunity credit four times on previously filed tax returns.

What's a Qualifying Education Expense?

Qualifying educational expenses for the American Opportunity Credit are tuition and related course materials. By contrast, "qualifying expenses" are restricted solely to tuition for tuition and fees deduction or the Lifetime Learning credit. For the American Opportunity credit, other course materials such as books, lab supplies, software and other class materials can qualify for the tax credit.

Comparing the American Opportunity Credit to other Tax Breaks for Education

The American Opportunity credit is available only for the first four years of undergraduate education and is partially refundable. The student must be enrolled at least half-time.

The lifetime learning credit is available for any post-secondary tuition, including graduate school or undergraduate education beyond four years, and is available for any course-load (the student does not have to be enrolled at least half-time). The lifetime learning credit is also a non-refundable credit, whereas the American Opportunity credit is refundable and can help offset the alternative minimum tax and the self-employment tax. The American Opportunity credit also features an expanded definition of qualifying expenses to include supplies and course materials, whereas other credits are limited just to tuition.