
Back to School Tax Breaks

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Tuesday, 30 October 2007

The start of the school year is a good time to remind parents, students and teachers to save all receipts related to tax-advantaged education expenses. Good recordkeeping is essential and helps to avoid missing a deduction or credit at tax time.

Deductions reduce the income on which tax is figured. Credits reduce the overall tax. Though both can lower a person's year-end tax bill or increase their refund, credits normally result in greater tax savings.

The educator expense deduction allows teachers and other educators to deduct the cost of books, supplies, equipment and software used in the classroom. Eligible educators include those who work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide in a public or private elementary or secondary school.

Worth up to \$250, the educator expense deduction is available, whether or not the educator itemizes their deductions on Schedule A. Last year, teachers and educators deducted just over \$893 million of these out-of-pocket classroom expenses. Under current law, this deduction is scheduled to expire at the end of this year.

There are three key tax breaks (the tuition and fees deduction, the Hope credit and the lifetime learning credit) that help parents and students pay for the cost of post-secondary education. All three are available, regardless of whether an eligible taxpayer itemizes their deductions.

Under current law, the tuition and fees deduction is scheduled to expire at the end of this year, but the two credits remain in effect. Last year, taxpayers claimed tuition and fees deductions totaling nearly \$11 billion and education credits of almost \$6.2 billion.

Normally, a taxpayer can claim tuition and required enrollment fees paid for their own and their dependent's college education. A taxpayer cannot take both an education credit and the tuition and fees deduction for the same student in the same year. Income limits and other special rules apply to each of these provisions. Education credits are claimed on Form 8863, and the tuition and fees deduction for 2007 will be claimed on new Form 8917.

Contact us and we will help you to understand the special rules that apply and assist you in determining which tax breaks to claim. In addition, IRS Publication 970, Tax Benefits for Education, is available. The publication also describes other education-related tax benefits, including qualified tuition programs (also known as 529 plans), the student loan interest deduction, Coverdell education savings accounts and the education savings bond program.