



**Accutek Solutions**  
Doug Beecher, C.P.A.

51 North 1000 West, Suite 5  
Hurricane, UT 84737  
Tel: (435) 635-3684  
Fax: (435) 635-5454  
E-mail: [dougbeecher@yahoo.com](mailto:dougbeecher@yahoo.com)  
Website: [www.accuteksolutions.com](http://www.accuteksolutions.com)

## **April 2000 - Maximizing Education and Child/Dependent Credits**

There are several tax deductions and credits available for higher education expenses. Which of these are best for you depends on a number of factors, most notably income and timing. I will summarize these here, but since the rules are complex and often conflicting, I would urge you to get additional information so that you can maximize your benefits.

### Higher Education Tax Credits

Two different education tax credits are available for you, your spouse, or someone you claim as your dependent. These are the Hope credit and the Lifetime Learning Credit.

The Hope credit is available for students in the first two years of a higher education program leading to a degree, certificate, or other recognized educational credential. For at least one quarter or semester beginning in the calendar year, the student must take at least a half-time course load as defined by the educational institution. The maximum credit for 1999 taxes is \$1,500 per qualifying student, which you receive if you paid \$2,000 or more of tuition and related expenses required by the school as a condition of enrollment. You receive a dollar-for-dollar credit for the first \$1,000 of qualifying expenses, and a 50% credit for the second \$1,000.

The Lifetime Learning Credit is available for more students, but is less generous than the Hope credit. There is no degree, certificate, or work load requirement, and it is available for upper division and graduate level education. The maximum credit for 1999 taxes is \$1,000 per family, and is 20% of the first \$5,000 for tuition and related expenses for all eligible students in the family.

Like almost all tax credits, there are additional qualifying conditions. You cannot claim both a Hope and a Lifetime Learning Credit for the same student in the same year. Phase out of the credits begin at \$40,000 (\$80,000 if filing a joint return) of modified adjusted gross income (MAGI) and the credits are not available at all above \$50,000 MAGI (\$100,000 if filing a jointly).

## Education Tax Deductions and Exclusions

Three tax deduction/exclusion possibilities are available. These are the student loan interest deduction, the deduction for job-related education expenses, and the exclusion of U.S. Savings Bond interest income used to pay education expenses.

Up to \$1,500 of student loan interest can be deducted from gross income in 1999, based on the following qualifying restrictions:

- Only interest paid in the first 60 months that interest payments are required may be deducted. This means that if you have a student loan that defers interest until after graduation, the 60 month period begins when interest begins, not when the loan begins.
- You cannot claim the deduction in the current year if you are claimed as a dependent by another person or if you are married and file a separate tax return.
- The deduction is phased out beginning at \$40,000 MAGI (\$60,000 if filing a joint return). It is not available at all above \$55,000 MAGI (\$75,000 if filing a joint return).
- Interest on student loans from relatives is not eligible for the deduction.
- You must use the loan proceeds to pay only education costs.

Job-related continuing education expenses can be claimed as an itemized deduction subject to these rules:

- The education must improve your skills at your current employment, and cannot qualify you for another line of work. For example, a business law course may improve your skills at your job, and would thus qualify. However, the same course as part of a program to receive a law degree would not be deductible if it qualified you for a new career as an attorney, even if you have no intention to change careers.
- You cannot claim both an education tax credit and a deduction for the same expense.
- You add these expenses to other job-related expenses and miscellaneous itemized deductions, and then subtract 2% of adjusted gross income. The difference is your usable deduction.

I suggest asking your employer to reimburse you upon the successful completion of these job-related courses, rather than paying them yourself and claiming this deduction. Both you and your employer would be better off.

### Other tax credit notes:

If you have children, you are undoubtedly aware of the child credit and the child care credit. A couple quick reminders:

- Consider the Additional Child Tax Credit if you claim 3 or more children under age 17 on December 31, 1999 as dependents and if you have an unused amount from the regular child tax credit. This is a rare opportunity to get a credit (up to \$500 per child) for some of the social security and Medicare taxes you have paid. The credit begins to phase out at \$55,000 MAGI if you are married filing separately, \$110,000 if married filing jointly, and \$75,000 otherwise.
- The child care credit is a maximum of \$720 for one dependent child under age 13 and \$1440 for two or more dependent children. It is reduced as income increases above \$10,000 and for any tax-free reimbursements (such as those shown on your W-2 form) from an employer dependent care program.
- A dependent care credit is available for costs to care for a person physically or mentally incapable of caring for themselves. This credit can still be claimed even if you cannot claim the person as a dependent because their gross income is above \$2,750, if you (and your spouse if applicable) pay more than half of the qualifying person's total household maintenance costs in 1999.

Next month:

Should you be saving part of your income in a Roth IRA? If you have a 401(K) or other retirement plan available that includes employer matching of your savings, should you choose that, or the Roth, or both? The difference can be many thousand dollars over your lifetime! I hope to have you with me then. If you have a topic you would like to see covered in these monthly articles, we'd love to hear from you!