



# Education Credits

**SCHEDULE 3**  
(Form 1040)

## Additional Credits and Payments

OMB No. 1545-0074

Department of the Treasury  
Internal Revenue Service

Attach to Form 1040, 1040-SR, or 1040-NR.  
Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.

**2022**  
Attachment  
Sequence No. **03**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number

### Part I Nonrefundable Credits

1	Foreign tax credit. Attach Form 1116 if required . . . . .	1
2	Credit for child and dependent care expenses from Form 2441, line 11. Attach Form 2441 . . . . .	2
3	Education credits from Form 8863, line 19 . . . . .	3

Form **8863** **Education Credits**  
(American Opportunity and Lifetime Learning Credits)

Department of the Treasury  
Internal Revenue Service (99)

Name(s) shown on return

▶ Attach to Form 1040.  
▶ Go to [www.irs.gov/Form8863](http://www.irs.gov/Form8863) for instructions and the latest information.

OMB No. 1545-0074  
**2021**  
current year not available  
Attachment  
Sequence No. **50**

Your social security number

Complete a separate Part III on page 2 for each student for whom you're claiming either credit before you complete Parts I and II.

# About Education Credits

- Additional resources listed in L&LT “References” tab
- Review all tips and cautions in the lesson
- Read all examples and sample interviews
- We will review answers to each exercise

# Objectives – Education Credits

- Determine:
  - Who qualifies for an education credit
  - Which credit the taxpayer can claim
- Time Required: 30 minutes

# Topics



- Dependents
- Eligible Institutions
- Qualifying Expenses
- American Opportunity Tax Credit
- Lifetime Learning Credit
- Choosing Between the Credits
- No Double Benefits
- Determining the Amount of the Credit
- Avoiding Common Errors

# Key Terms

Definitions are always available in the L&LT online Glossary.

- Adjusted Gross Income (AGI)
- American Opportunity Tax Credit
- Education Credits
- Lifetime Learning Credit
- Nonrefundable Credit
- Qualified Tuition Program
- Qualifying Child
- Refundable Credit

# Education Credits Introduction

- Education credit amounts are based on qualified education expenses paid during the tax year
- For an overview of education credits, see Pub 4012, Tab J, Education Benefits, [Highlights of Education Tax Benefits](#)
- To help guide your interview, use Pub 4012, Tab J, Education Benefits, [Education Credits](#)
- Disqualifying conditions include if a taxpayer:
  - Can be claimed as a dependent on someone else's tax return
  - Files as Married Filing Separately
  - Has an AGI above the limit for the taxpayer's filing status
  - Was a nonresident alien for any part of the tax year, and did not elect to be treated as a resident alien for tax purposes

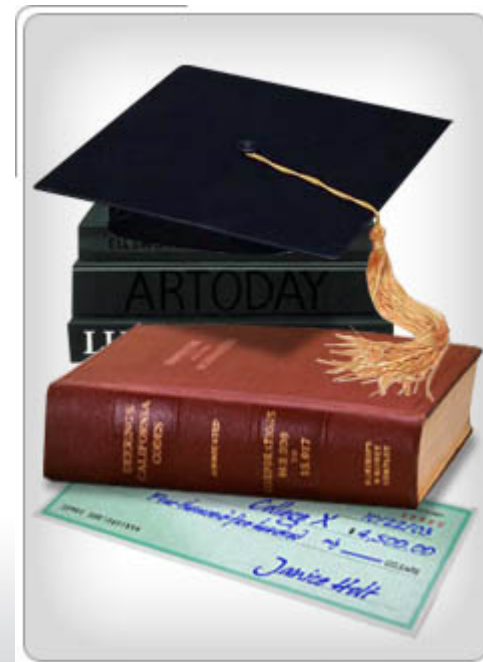
# Dependents / Eligible Institutions

- To claim the credit for a student's qualified expenses, the taxpayer must claim the student as a dependent
- Expenses must have been paid to an eligible educational institution
- A searchable database of all accredited schools is available at <https://ope.ed.gov/accreditation>



# Qualifying Expenses

- Qualified education expenses are tuition and certain related expenses required for attendance at an eligible educational institution
- The definition for “certain related expenses” differs between the lifetime learning credit and the American opportunity credit
- Necessary proof of expenses includes such documents as receipts and [Form 1098-T, Tuition Statement](#), issued by the school
- Qualified expenses must be reduced by the amount of any tax-free educational assistance taxpayers receive
- Taxpayers can claim payments that were prepaid for the academic period that begins in the first three months of the next year





# American Opportunity Tax Credit

- Available for the first four years of college per eligible student
- The credit covers 100% of the first \$2,000 and 25% of the second \$2,000 of eligible expenses, up to the amount of tax or a maximum of \$2,500
- 40% of the credit is a refundable credit
- See [Form 8863 Instructions](#) for more information

# Lifetime Learning Credit

- The credit is 20% of the first \$10,000 of eligible expenses, up to the amount of tax or a maximum of \$2,000
- The credit is non-refundable
- Eligible students are not required to be enrolled at least half-time or in a degree program, and a felony drug conviction is not a disqualification
- Refer to Pub 4012, Tab J, Education Benefits, [Education Credits](#) for basic requirements

# Choosing Between the Credits / No Double Benefits


- Refer to Pub 4012, Tab J, Education Benefits, [Education Credits](#) for summary of differences between education credits
- Taxpayers cannot receive multiple benefits for the same student's expenses
- Taxpayers have several options for claiming education expenses:
  - American opportunity credit or lifetime learning credit
  - Reporting as business expenses on Schedules C

## Comparison of Education Credits

Credit Conditions	American Opportunity Credit	Lifetime Learning Credit
Maximum credit	Up to \$2,500 credit per eligible student	Up to \$2,000 credit per return
Limit on modified adjusted gross income (MAGI)	\$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow(er)	\$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow(er)
Refundable or nonrefundable	40% of credit may be refundable <sup>1</sup> ; the rest is nonrefundable	Nonrefundable—credit limited to the amount of tax you must pay on your taxable income
Number of years of postsecondary education	Available ONLY if the student had not completed the first 4 years of post secondary education before 2022. See Completion of first 4 years in Publication 970.	Available for all years of postsecondary education and for courses to acquire or improve job skills
Number of tax years credit available	Available ONLY for 4 tax years per eligible student (including any year(s) Hope credit was claimed)	Available for an unlimited number of tax years
Type of program required	Student must be pursuing a program leading to a degree or other recognized education credential	Student does not need to be pursuing a program leading to a degree or other recognized education credential
Number of courses	Student must be enrolled at least half-time <sup>2</sup> for at least one academic period beginning during 2022 (or the first 3 months of 2023 if the qualified expenses were	Available for one or more courses

# Determining the Amount of the Credit

- General steps for calculating the education credit amounts:
  - Review the expenses and decide which education credit is more advantageous
  - Enter each qualifying student in the appropriate sections of [Form 8863](#)
  - Enter each student's expenses
  - Find the totals and apply any limits, if applicable

Form <b>8863</b> Department of the Treasury Internal Revenue Service (99)	<b>Education Credits</b> <b>(American Opportunity and Lifetime Learning Credits)</b> ▶ Attach to Form 1040 or 1040-SR. ▶ Go to <a href="http://www.irs.gov/Form8863">www.irs.gov/Form8863</a> for instructions and the latest information.	OMB No. 1545-0074 <b>2020</b> Attachment Sequence No. 50
Name(s) shown on return		Your social security number
 Complete a separate Part III on page 2 for each student for whom you're claiming either credit before you complete Parts I and II.		
<b>Part I Refundable American Opportunity Credit</b>		
<b>1</b> After completing Part III for each student, enter the total of all amounts from all Parts III, line 30 . . .	<b>1</b>	
<b>2</b> Enter: \$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow(er) . . .	<b>2</b>	
<b>3</b> Enter the amount from Form 1040 or 1040-SR, line 11. If you're filing Form 2555 or 4563, or you're excluding income from Puerto Rico, see Pub. 970 for the amount to enter . . .	<b>3</b>	
<b>4</b> Subtract line 3 from line 2. If zero or less, <b>stop</b> ; you can't take any education credit . . .	<b>4</b>	
<b>5</b> Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er) . . .	<b>5</b>	
<b>6</b> If line 4 is:		

## Out of Scope for this Lesson:

- Taxpayers who must repay (recapture) part or all of an education credit claimed in a prior year

# Summary

- Two education credits may reduce a taxpayer's tax liability:
  - American opportunity credit
  - Lifetime learning credit
- Taxpayers and students must have a taxpayer identification number (TIN) by the due date of the return
- Education expenses can be applied to those credits, deducted on Schedules C
- 40% of the American opportunity credit is a refundable credit, which means taxpayers can receive up to \$1,000 even if they have no tax liability
- Compare the tax effects of the various education benefits and choose the method that results in the lowest tax