




Lesson Plan

Education Credits

Time Required: 60 minutes

| Introduction | Objectives | Topics |
|---|---|---|
| <p>This lesson covers tax credits available to help the taxpayer offset the costs of higher education by reducing the amount of income tax.</p> | <p>Determine:</p> <ul style="list-style-type: none">• Who qualifies for an education credit• Which credit the taxpayer can claim |  <p>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</p> |

Key Terms

Adjusted Gross Income (AGI): The taxpayer's total adjusted gross income (AGI) is the amount that is used to compute some limitations, such as the medical and dental deduction on Schedule A and the credit for child and dependent care expenses.

American Opportunity Tax Credit: A credit of up to \$2,500 for qualified education expenses paid for each eligible student. Forty percent of the credit is refundable, up to \$1,000. Changes to this credit made it available to a broader range of taxpayers, including higher income taxpayers and those who owe no tax.

Education Credits: Credits that reduce the amount of tax due and are based on qualified education expenses that the taxpayer paid during the tax year.

Lifetime Learning Credit: One of two tax credits available to offset costs of higher education by reducing the amount of income tax. The Lifetime Learning credit is a nonrefundable credit of up to \$2,000 for qualified education expenses for students enrolled in eligible educational institutions. It is available to students for all years of postsecondary education and for courses to acquire or improve job skills.

Nonrefundable Credit: A nonrefundable credit can only reduce the tax liability to zero. Any excess credit is not refunded to the taxpayer.

Qualified Tuition Program: A program set up to allow taxpayers to either prepay or contribute to an account established for paying a student's qualified expenses at an eligible educational institution. The program must meet certain requirements set by the state. Also known as a 529 program.

Qualifying Child: To be identified as a qualifying child and dependent, a person must meet these tests: U.S. citizen or resident test, Joint return test, Relationship test, Age test, Support test, Residence test, and Qualifying child of more than one person test.

Refundable Credit: Occurs when the amount of a credit is greater than the tax owed. Taxpayers not only can have their tax reduced to zero; they can also receive a “refund” of excess credit.

Teacher Tips

Guidelines for Lesson

| Guideline | Instructor Notes | Presentation Aids |
|---|---|--|
| Lesson background info | Review the online demo of TaxSlayer on Nonrefundable Credits. | TaxSlayer® Demo: From the Practice Lab, select: <ul style="list-style-type: none"> • TaxSlayer IRS training • Click the appropriate demo |
| Provide details and engage the students | <p>Discuss all tips and cautions in detail.</p> <p>Ask students to read and/or role-play examples and sample interviews.</p> <p>Review answers to each exercise; ask students how they arrived at their answers.</p> | <p>Internet: Link & Learn Taxes (L&LT) Education Credits</p> |

Topic-specific Tips

| Topic Name | Instructor Notes | Presentation Aids |
|-------------------|--|--|
| Introduction | <p>Review lesson objectives.</p> <p>Discuss this lesson is one of the eight lessons that cover the Tax and Credits section of the return.</p> <p>Review list of references.</p> <p>State the presentation time.</p> <p>Verify Form 13614-C, Part IV shows box for Education expenses is checked.</p> | <p>Visuals: Form 13614-C, Page 2, Part IV Form 1040 Publication 970, Tax Benefits for Education Pub 4012, Tab J, Education Benefits</p> |
| Education Credits | <p>Ask: What are the types of education credits available to taxpayers? Answer: American opportunity and lifetime learning credits.</p> <p>Refer students to Pub 4012, Highlights of Education Tax Benefits for an overview of the various education benefits.</p> <p>Review Who Cannot Claim the Credit? in Pub 4012.</p> | <p>Visuals: Pub 4012, Tab J, Education Benefits, Highlights of Education Tax Benefits Pub 4012, Tab J, Education Benefits, Education Credits</p> <p>Internet: Education Credits - AOTC and LLC</p> |

Dependents / Eligible Institutions

Review L< topic Dependents and Eligible Institutions.

Discuss expenses paid by a third party.

Advise students of new requirement that taxpayers claiming the American opportunity credit must report the EIN of the educational institution the student attended on Form 8863.

Ask: Can a taxpayer claim a credit for a student’s qualified expenses if the student is not a dependent on the taxpayer’s return? **Answer:** No, the student must be listed as a dependent on the taxpayer’s return.

Refer students to the online searchable database of all accredited schools.

Visuals:

Pub 4012, Tab J, Education Credits, [Education Credit Who can claim a dependent’s expenses?](#)

Internet:

[Eligible institutions from U.S. Department of Education](#)

Qualifying Expenses

Review L< topic Determining Taxpayer Eligibility.

Review Pub 4012, What Expenses Qualify?, What are Qualifying Expenses?, and What is Tax-free educational assistance?

Prompt students to give examples of qualifying expenses and nonqualifying expenses.

Review Form 1098-T and caution students that a taxpayer’s Form 1098-T might be incomplete; students should ask about qualified expenses actually paid and any tax-free scholarships and tuition program distributions.

Caution students to not reduce qualified education expenses by any scholarship or fellowship as income on tax return if use of scholarship is not restricted and used to pay nonqualified expenses.

Visual:

Pub 4012, Tab J, Education Benefits, [Education Credits](#)

Pub 4012, [Determining Qualified Education Expenses](#)

Pub 4012, [Tax Treatment of Scholarship and Fellowship Payments](#)

[Form 1098-T, Tuition Statement](#)

Internet:

FAQ: [What expenses qualify for the education credits?](#)

FAQ: [Do tuition and related expenses paid to attend a private high school qualify?](#)

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|--|--|--|
| | <p>Discuss If the student includes the educational assistance in income, has a filing requirement and unearned income (including the taxable scholarship) over the ceiling amount, the student must file Form 8615 (kiddie tax).</p> | |
| <p>American Opportunity Tax Credit</p> | <p>Review L&LT topic American Opportunity Tax Credit.</p> <p>Ask: What type of students are covered by the American opportunity credit?</p> <p>Answer: Students in their first four years of college who are pursuing an undergraduate degree or recognized education credential.</p> <p>Review the requirements for taking the American opportunity credit using Pub 4012.</p> <p>Review the Tax Topics on IRS.gov</p> | <p>Visuals: Form 8863 Instructions</p> <p>Pub 4012, Tab J, Education Benefits, Education Credits</p> <p>Internet: Tax Topic: American Opportunity Credit</p> |
| <p>Lifetime Learning Credit</p> | <p>Review L&LT topic Lifetime Learning Credit.</p> <p>Ask: What type of students may be eligible for the lifetime learning credit?</p> <p>Answer: Any student taking post-secondary education courses and for students that want to acquire or improve job skills.</p> <p>Review the requirements for taking the lifetime learning credit using Pub 4012.</p> <p>Review the FAQ found on IRS.gov.</p> | <p>Visuals: Pub 4012, Tab J, Education Benefits, Education Credits</p> <p>Internet: FAQ: What is a Lifetime Learning Credit?</p> |
| <p>Choosing Between the Credits</p> | <p>Review L&LT topic Choosing Between the Credits.</p> <p>Review Pub 4012, Comparison of Education Credits.</p> <p>Review the Tax Topic found on IRS.gov.</p> | <p>Visuals: Pub 4012, Tab J, Education Benefits: • Education Credits</p> <p>Internet: Education Credits - AOTC and LLC</p> |

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|---|---|--|
| <p>No Double Benefits</p> | <p>Review L&LT topic No Double Benefits.</p> | <p>Visuals: Pub 4012, Tab J, Education Benefits, Education Credits Schedule A</p> |
| <p>Determining the Amount of the Credit</p> | <p>Review L&LT topic Determining the Amount of the Credit.</p> <p>Remind students that before they can determine the amount of the credit, they must decide between the credits.</p> <p>Remind students that they must complete Part III for each eligible student for whom the taxpayer is claiming an education credit before completing Parts I and II. TaxSlayer performs the calculations.</p> <p>Remind students they must enter the total amount of qualifying expenses in the software, and they can choose which benefit is better.</p> <p>Caution To determine the amount of qualified expenses, please review Form 1098-T and have a discussion with the taxpayer to determine the qualified education expenses paid.</p> | <p>Visuals: Form 8863</p> <p>Pub 4012, Tab J, Education Benefits, Nonrefundable Credits</p> <p>Pub 4012, Tab J, Education Benefits, Entering Education Benefits</p> <p>Pub 970</p> <p>TaxSlayer Demo: Entering Basic Credits</p> |
| <p>Skills Workout</p> | <p>Review the lesson exercises with the class.</p> <p>Point out that taxpayers who must repay (recapture) part or all of an education credit claimed in a prior year must be referred to a professional tax preparer.</p> | <p>Visuals: L&LT Education Credits, Click Certification Warm Up icon to review the exercises</p> |

References

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|------------------------|--|
| Form 1040 Instructions | Form 1040 Instructions , line 50 |
| Form 8863 | Form 8863, Education Credits (American Opportunity and Lifetime Learning Credits) |
| Form 8863 Instructions | Instructions for Form 8863 |
| Form 13614-C | Form 13614-C , Intake/Interview & Quality Review Sheet, Page 2, Part IV |
| Pub 4012 | Pub 4012, Volunteer Resource Guide, Tab J, Education Benefits Education Credits Tax Treatment of Scholarship and Fellowship Payments Determining Qualified Education Expenses Entering Education Benefits References - Highlights of Education Tax Benefits |
| Pub 970 | Pub 970, Tax Benefits for Education , Chapters 2 and 3 |

Recommended Classroom Activities



Skills Workout



Certification Warm Up



Media: Videos & Audio



TaxSlayer Tutorial



Job Aids



Practice Lab



[Skills Workout: Link & Learn Taxes Education Credits](#)

Click Skills Workout to access Link & Learn Taxes Education Credits.



[Certification Warm Up – Summary and Exercises](#)

Click Certification Warm Up to access the Exercises in Link & Learn Taxes Education Credits.



[Media: Video & Audio for Lesson](#)

There is no media associated with this lesson.



TaxSlayer Tips and Resources for Lesson

TaxSlayer Training Video [Entering Basic Credits](#)

Practice Lab Tutorial

From the [Practice Lab](#):

1. Enter the universal password (if you do not have the password, you can request it from your site coordinator or SPEC relationship manager).
 2. Sign in to Practice Lab or create an account.
 3. Select the appropriate tutorial.
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Job Aids

ITA and FAQs for Lesson

Credits & Deductions

Education Credits - AOTC and LLC

<https://www.irs.gov/credits-deductions/individuals/education-credits-aotc-llc>

FAQs

What expenses qualify for the education credits?

<https://www.irs.gov/credits-deductions/individuals/qualified-ed-expenses>

Do tuition and related expenses paid to attend a private high school qualify?

<https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/eligible-educational-inst>

Tax Topics

American Opportunity Credit

<https://www.irs.gov/uac/American-Opportunity-Tax-Credit>

Lifetime Learning Credit

<https://www.irs.gov/credits-deductions/individuals/llc>

Other

Searchable database of all accredited schools

<https://ope.ed.gov/accreditation>



Practice Lab

Practice Lab

<https://vita.taxslayerpro.com/IRSTraining/>
