



E A R L H A M
SCHOOL *of* RELIGION

**EARLHAM SCHOOL OF RELIGION
HIGHLIGHTS FROM IRS PUBLICATION 970
*TAX BENEFITS FOR EDUCATION***

There are several tax benefits available to many ESR students and graduates. You can find extensive details in IRS Publication 970 (<http://www.irs.gov/pub/irs-pdf/p970.pdf>). There is also a copy in the Business Office. Other helpful information can be found at: <http://www.irs.gov/individuals/students/index.html>
<http://www.irs.gov/uac/Tax-Benefits-for-Education:-Information-Center>

The purpose of this document is to assist you in deciding if you should look further into any of the available tax benefits. It is not intended to provide you with specific tax advice.

The Highlights will follow along in same order as Publication 970. Many of these benefits are based on your Modified Adjusted Gross Income (MAGI).

1. Scholarships, Fellowships, Grants and Tuition Reductions. (Pages 4-8)
 - ESR Cooper Scholarships and Need-based aid scholarships ARE tax-free because they meet the requirements on pages 4-5.
 - Scholarships you receive from other sources may be taxable if they are not used to pay for qualified expenses, but used for unqualified expenses such as daily living expenses.
 - Scholarships you receive as payment for services generally are taxable.
2. Hope Credits (Pages 8-18)
 - For undergraduates only.
3. Lifetime Learning Credit (LLC) (Pages 19-26)
 - This is a tax CREDIT, which directly reduces the amount of tax you owe, possibly down to zero.
 - All ESR students, part-time, full-time, occasional and Access, degree-seeking or not, may be eligible for up to \$2,000 per year, per tax return.
 - You can claim an LLC for qualified expenses that are paid with the proceeds of a loan.
 - You cannot claim an LLC for qualified expenses that are paid with a tax-exempt scholarship, such as a Cooper or Need-based aid scholarship.
 - You cannot claim an LLC if you claim a tuition and fees deduction (see 6. below), or deduct them as business expenses. You should calculate your taxes each way to determine which is of greater benefit to you.
 - The amount of the LLC is 20% of up to \$10,000 of qualified education expenses you paid (there are limits based on your income).

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4. Student Loan Interest Deduction (Pages 26-33)

- This is a tax DEDUCTION, which reduces your taxable income, even if you don't itemize deductions on Schedule A.
- ESR students who pay interest on loans taken out solely to pay qualified education expenses (see page 27) can reduce your taxable income by up to \$2,500 in 2007.
- Interest on all Federal Student Aid loans (Perkins and Stafford) you take out while at ESR qualify for this deduction. The Loan Origination fee that is deducted from Stafford loan disbursement may also be included
- **WARNING:** If you refinance a qualified student loan for more than your original loan, and you use the additional amount for any purpose other than qualified education expenses, you cannot deduct **any** interest paid on the refinanced loan.

5. Student Loan Cancellations and Repayment Assistance (Page 34-35)

If your student loan is cancelled or reduced due to working under certain conditions (see page 31), you may not have to include the amount in income.

6. Tuition and Fees Deduction (Pages 35-43)

- This is a tax DEDUCTION, which reduces your taxable income, even if you don't itemize deductions on Schedule A.
- All ESR students, part-time, full-time, occasional and Access, degree-seeking or not, may be eligible for up to \$4,000 per year.
- You can deduct tuition and fees that are paid with the proceeds of a loan.
- You cannot deduct tuition and fees that are paid with a tax-exempt scholarship, such as a Cooper or Need-based aid scholarship.
- You cannot deduct tuition and fees if you claim an LLC (see 3. above), or deduct them as business expenses. You should calculate your taxes each way to determine which is of greater benefit to you.
- The amount of the deduction is tuition and fees (Registration and Technology only, not Common Meal) up to \$4,000 (there are limits based on your income).

7. Coverdell Education Savings Accounts (ESA) (Pages 43-55)

- Not applicable to ESR students, unless established when student is under age 18.

8. Qualified Tuition Programs (QTP) (pages 56-60)

- Not applicable to ESR students.

9. Early Distributions From IRAs (Pages 60-61)

- You may not have to pay the 10% penalty tax for early distributions on your IRA if the money is used for qualified education expenses.
- If you are at least half time, qualified expenses include room and board, as reported on your ESR Financial Aid Application budget sheet.
- You can include expenses that are paid with the proceeds of a loan.
- You cannot include expenses that are paid with a tax-exempt scholarship, such as a Cooper or Need-based aid scholarship.

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10. Education Savings Bond Program (Pages 61-63)

- You may be able to exclude interest from income if you use Series EE bonds issued after 1989 or Series I bonds to pay qualified education expenses.

11. Employer-Provided Educational Assistance (Page 64)

- If you receive education assistance benefits from your employer under an educational assistance program, you can exclude up to \$5,250 of those benefits from taxable income.

12. Business Deduction for Work-related Education (Pages 64-74)

- You may be able to deduct work-related education expenses that are greater than 2% of your Adjusted Gross Income.
- There are many restrictions, so read Publication 970 carefully.

13. How to get Tax Help (Pages 74-77)

- Volunteer Income Tax Assistance (VITA), for low-medium income people, the elderly and disabled, or
Tax Counseling for the Elderly (TCE)
You can find VITA or TCE in your area with the VITA Locator tool on irs.gov , by calling 800-906-9887, or using the IRS2Go app
- www.irs.gov/advocate
- IRS Publication 1546, The Taxpayer Advocate Service of the IRS
- IRS Publication 910, IRS Guide to Fee Tax Service
- Interactive Tax Assistant web site: <http://www.irs.gov/uac/Interactive-Tax-Assistant-%28ITA%29-1>
- Many other ways to get help on specific topics are listed in Pub 970