

FEDERAL AMERICAN OPPORTUNITY TAX CREDIT



(Tax Year 2011)

What Is It?

The American Opportunity Tax Credit, first enacted for tax year 2009 and extended through tax year 2012, expands the previous Hope Credit by being partly refundable—up to \$1,000 of the AOTC may be claimed even if the individual earns too little to owe income tax. The AOTC can make education more affordable for many more low-income families and students who might not otherwise be able to attend college.

Who Qualifies?

The AOTC is available for students who are in their first four years of college (the Hope Credit covered only the first two years) and are pursuing an undergraduate degree. Filers may be eligible for the AOTC if they:

- ✧ paid for “qualified educational expenses” for themselves, their spouse or their dependents at an “eligible educational institution,” and
- ✧ have adjusted gross income in 2011 less than \$80,000; \$160,000 if married (these limits are higher than under the Hope Credit rules). The amount of the AOTC phases out at income levels above this.

How Does It Work?

The AOTC is now worth up to \$2,500—an increase from the Hope Credit’s maximum of \$1,800. The AOTC is figured by taking the first \$2,000 paid towards the student’s qualified educational expenses and adding 25 percent of the next \$2,000 in educational expenses, up to \$2,500. The AOTC provides a refundable credit worth 40 percent of this total, up to \$1,000. If no income tax is owed, the filer still qualifies for an AOTC up to \$1,000. If tax is owed, the balance of the credit is used to reduce the filer’s tax liability.

Qualified educational expenses include:

- ✧ Tuition (after the subtraction of tax-free contributions such as scholarships, fellowships, Pell Grants, employer assistance and veterans assistance).
- ✧ Course-related materials, whether or not they are required for enrollment at an educational institution.

The following are not qualifying expenses: insurance, medical expenses, room and board, transportation, other living or family expenses, and child care.

How Do Filers Claim the Credit?

Filers must use IRS Form 8863 to claim the credit. It must be attached to the tax return. Filers cannot use 1040EZ if they are claiming this credit.