

## **Special IRS Web Section Highlights Back-to-School Tax Breaks; Popular 529 Plans Expanded, New \$2,500 College Credit Available**

Issue Number: IR-2009-078 Provided by Internal Revenue Service

WASHINGTON — In support of the Administration's efforts to promote access to and the affordability of college education, the Internal Revenue Service today launched a new Web section highlighting various tax breaks and 529 plan changes designed to help parents and students pay for college.

The new [Tax Benefits for Education](#) section on IRS.gov includes tips for taking advantage of long-standing education deductions and credits. The “one-stop” location for higher education information includes a special section highlighting 529 plans and frequently asked questions. The Web section also features two key changes that will be in effect during 2009 and 2010 that were included in the [American Recovery and Reinvestment Act \(ARRA\)](#), enacted earlier this year.

One change allows families saving for college to use popular 529 plans to pay for a student's computer-related technology needs. Under the other change, more parents and students will be able to use a federal education credit to pay part of the cost of college using the new American opportunity credit.

“With many families struggling to afford college, we want every eligible taxpayer to know about their options and take advantage of all the tax breaks they can,” said IRS Commissioner Doug Shulman. “529 plans have become a very attractive way to save for college, and our Web section is designed to help people get information about these plans. In addition, the new American opportunity credit can help many parents and students pay part of the cost of the first four years of college.”

Here are further details on the expanded 529 plans and the new American opportunity credit.

### **529 Plans Expanded**

Tax-free college savings plans and prepaid tuition programs can be used to buy computer equipment and services for an eligible student during 2009 and 2010. These 529 plans — qualified tuition programs authorized under section 529 of the Internal Revenue Code — have, in recent years, grown as a way for parents and other family members to save for a child's college education. Though contributions to 529 plans are not deductible, there is also no income limit for contributors.

529 plan distributions are tax-free as long as they are used to pay qualified higher education expenses for a designated beneficiary. Qualified expenses include tuition, required fees, books, supplies, equipment and special needs services. For someone who is at least a half-time student, room and board also qualify.

For 2009 and 2010, the ARRA change adds to this list expenses for computer technology and equipment or Internet access and related services to be used by the student while enrolled at an eligible educational institution. Software designed for sports, games or hobbies does not qualify, unless it is predominantly educational in nature. In general,

expenses for computer technology are not qualified expenses for the American opportunity credit, Hope credit, lifetime learning credit or tuition and fees deduction.

States sponsor 529 plans that allow taxpayers to either prepay or contribute to an account for paying a student's qualified higher education expenses. Similarly, colleges and groups of colleges sponsor 529 plans that allow them to prepay a student's qualified education expenses. More information about these plans can be found on the new Web page on IRS.gov and in Publication 970, Tax Benefits for Education.

### **American Opportunity Credit Helps Pay for the First Four Years of College**

The American opportunity credit modifies the existing Hope credit for tax years 2009 and 2010, making it available to a broader range of taxpayers. Income guidelines are expanded and required course materials are added to the list of qualified expenses. Many of those eligible will qualify for the maximum annual credit of \$2,500 per student.

The American opportunity credit, in many cases, offers greater tax savings than existing education tax breaks. Here are some key features of the credit:

- Tuition, related fees, books and other required course materials generally qualify. In the past, books usually were not eligible for education-related credits and deductions.
- The credit is equal to 100 percent of the first \$2,000 spent and 25 percent of the next \$2,000. That means the full \$2,500 credit may be available to a taxpayer who pays \$4,000 or more in qualified expenses for an eligible student.
- The full credit is available for taxpayers whose modified adjusted gross income (MAGI) is \$80,000 or less (for married couples filing a joint return, the limit is \$160,000 or less). The credit is phased out for taxpayers with incomes above these levels. These income limits are higher than under the existing Hope and lifetime learning credits.
- Forty percent of the American opportunity credit is refundable. This means that even people who owe no tax can get an annual payment of the credit of up to \$1,000 for each eligible student. Existing education-related credits and deductions do not provide a benefit to people who owe no tax. The refundable portion of the credit is not available to any student whose investment income is taxed at the parent's rate, commonly referred to as the kiddie tax. See [Publication 929](#), Tax Rules for Children and Dependents, for details.

Eligible parents and students can get the benefit of this credit during the year by having less tax taken out of their paychecks. They can do this by filling out a new Form W-4, claiming additional withholding allowances, and giving it to their employer. For details, use the withholding calculator on IRS.gov or see [Publication 919](#), How Do I Adjust My Tax Withholding?

Though most taxpayers who pay for post-secondary education will qualify for the American opportunity credit, some will not. The limitations include a married person filing a separate return, regardless of income, joint filers whose MAGI is \$180,000 or more and, finally,

single taxpayers, heads of household and some widows and widowers whose MAGI is \$90,000 or more.

There are some post-secondary education expenses that do not qualify for the American opportunity credit. They include expenses paid for a student who, as of the beginning of the tax year, has already completed the first four years of college. That's because the credit is only allowed for the first four years of post-secondary education.

Graduate students still qualify for the lifetime learning credit and the tuition and fees deduction. For details on these and other education-related tax benefits, see Pub. 970.