



**Kaiserslautern Legal Services Center
Legal Assistance Information**



American Opportunity Education Tax Credit Now Pays for Textbooks for Undergraduates

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Education tax credits are nothing new. They have been around for more than a decade. Originally, the Hope Scholarship Credit covered the first two years of post-secondary education, and the Lifetime Learning Credit took over where the Hope left off. Both credits were nonrefundable, meaning they were subtracted from whatever tax you owed, but if you owed no tax, you got no credit. And one big problem with those credits was that you could not take credit for textbooks unless they were part of the mandatory fee charged for the course.

The American Opportunity Credit, first introduced for tax year 2009, represents a major improvement over the Hope Credit, which it has replaced. For starters, it covers the first **four** years of post-secondary education, not just the first two, so it will cover most students through their undergraduate years. And 40% of the credit is **refundable**, which means that portion of the credit is paid to you even if you owe no tax (it is similar to the Earned Income Tax Credit in this regard). So you no longer lose out on the credit if you “zero out” on your tax obligation.

But perhaps the most welcome change in the American Opportunity Credit for military taxpayers is that the “qualified expenses” you can claim under this credit have been expanded beyond the traditional “tuition and mandatory fees for enrollment” to include course-related books, supplies, and equipment. These items do **not** need to be purchased from the institution in order to qualify for the credit.

That’s a **BIG BENEFIT** for military students. Many were never able to take the Hope Credit because their tuition was entirely paid for by Tuition Assistance (TA) and the Hope Credit did not allow you to claim the cost of textbooks unless they were included in the mandatory fee for the class. Now, if you run out of TA and have to pay tuition out of your own pocket, you can take a credit for that tuition on your tax return, and if you have to pay for textbooks (some of which can be very expensive) you can write that off, too.

Many of the “for-profit” universities that have come under Congressional scrutiny lately for offering degrees of dubious value lure students away from more traditional universities by offering to “include the cost of the textbook” in their mandatory fees, or e-mail the textbook to the student for free. This has much less appeal now that most undergraduates can simply write off the cost of their textbooks on their income tax. The American Opportunity Credit removes

one of the incentives to sign up with a university you never heard of before, just to save a few bucks. That can cost you in the long run—when no one will hire you.

The Lifetime Learning Credit still exists. It takes over where the American Opportunity Credit leaves off—after the fourth year of post-secondary education—so this is the credit most graduate students will be able to claim. Unfortunately, it is not as generous as the American Opportunity Credit. It is nonrefundable, and it only covers course-related books, supplies, and equipment if the student is required to pay the institution for them.

Some of the other rules regarding Education Credits have not changed. You can only claim these credits to the extent you had out-of-pocket expenses; if you have been reimbursed for those expenses (*e.g.*, by the military), they are not out-of-pocket anymore. Also, if you take an Education Credit, you cannot take the Tuition and Fees Deduction as an adjustment to income for the same expenses; that would be a double benefit, which is forbidden.

For more information on Education Credits and related matters, download a copy of IRS Publication 970, *Tax Benefits for Education*, at the IRS website: www.irs.gov.