

3.

Hope Credit

What's New

Additional requirements for claiming the Hope credit.

The new American opportunity credit ([chapter 2](#)) has replaced the Hope credit for most taxpayers. However, a larger Hope credit (\$3,600 maximum) is available for students meeting the special rules for the Midwestern disaster areas. In order to claim the Hope credit for 2009, you must:

- Claim the Hope credit for at least one student attending an eligible institution in a Midwestern disaster area, and
- Choose not to claim the American opportunity credit for any student in 2009.

Income limits increased. The amount of your Hope credit for 2009 is gradually reduced (phased out) if your modified adjusted gross income (MAGI) is between \$50,000 and \$60,000 (\$100,000 and \$120,000 if you file a joint return). You cannot claim a credit if your MAGI is \$60,000 or more (\$120,000 or more if you file a joint return). This is an increase from the 2008 limits of \$48,000 and \$58,000 (\$96,000 and \$116,000 if filing a joint return). See [Effect of the Amount of Your Income on the Amount of Your Credit](#), later, for more information.

Introduction

For 2009, there are three tax credits available to help you offset the costs of higher education by reducing the amount of your income tax. They are the American opportunity credit, the Hope credit, and the lifetime learning credit. This chapter discusses the Hope credit. The American opportunity credit is discussed in [chapter 2](#). The lifetime learning credit is discussed in [chapter 4](#).

This chapter explains:

- Who can claim the Hope credit,
- What expenses qualify for the credit,
- Who is an eligible student,
- Who can claim a dependent's expenses,
- How to figure the credit,
- How to claim the credit, and
- When the credit must be repaid.

What is the tax benefit of the Hope credit. For the tax year, you may be able to claim a Hope credit of up to \$1,800 (\$3,600 if a student in a Midwestern disaster area) for qualified education expenses paid for each eligible student.

A tax credit reduces the amount of income tax you may have to pay. Unlike a deduction, which reduces the amount of income subject to tax, a credit directly reduces the tax itself. The Hope credit is a nonrefundable credit. This means that it can reduce your tax to zero, but if the credit is more than your tax the excess will not be refunded to you.

Your allowable Hope credit may be limited by the amount of your income and the amount of your tax.

Students in Midwestern disaster areas. To qualify for the special rules, a student must attend an eligible educational institution in a Midwestern disaster area. See [Table 4-2](#) at the end of chapter 4 for a list of qualifying disaster areas. For the expanded definition of qualified education expenses, see [Students in Midwestern disaster areas](#) under *Qualified Education Expenses*, later in this chapter.



You can choose the education benefit that will give you the lowest tax. You may want to compare the tuition and fees deduction ([chapter 7](#)) to one or more of the education credits.

Overview of the Hope credit. See [Table 3-1](#), below, for the basics of the Hope credit. The details are discussed in this chapter.

Can you claim more than one education credit this year. For each student, you can elect for any year only one of the credits. For example, if you elect to take the Hope credit for a child on your 2009 tax return, you cannot, for that same child, also claim the lifetime learning credit for 2009.

If you are eligible to claim the Hope credit and you are also eligible to claim the lifetime learning credit for the

Table 3-1. Overview of the Hope Credit

Maximum credit	Up to \$1,800 (\$3,600 if a student in a Midwestern disaster area) credit per eligible student
Additional requirement for 2009	At least one eligible student must be attending an eligible educational institution in a Midwestern disaster area
Limit on modified adjusted gross income (MAGI)	\$120,000 if married filing jointly; \$60,000 if single, head of household, or qualifying widow(er)
Refundable or nonrefundable	Nonrefundable—credit limited to the amount of tax you must pay on your taxable income
Number of years of postsecondary education	Available ONLY for the first 2 years of postsecondary education
Number of tax years credit available	Available ONLY for 2 tax years per eligible student
Type of degree required	Student must be pursuing an undergraduate degree or other recognized education credential
Number of courses	Student must be enrolled at least half time for at least one academic period that begins during the tax year
Felony drug conviction	No felony drug convictions on student's records
Qualified expenses	Tuition and fees required for enrollment (including amounts required to be paid to the institution for course-related books, supplies, and equipment). Additional expenses allowed for students in Midwestern disaster areas.
Payments for academic periods	Payments made in 2009 for academic periods beginning in 2009 and in the first 3 months of 2010

same student in the same year, you can choose to claim either credit, but not both.

If you pay qualified education expenses for more than one student in the same year, you can choose to take the Hope and lifetime learning credits on a per-student, per-year basis. This means that, for example, you can claim the Hope credit for one student and the lifetime learning credit for another student in the same year.

However, you cannot claim the Hope credit for one student and the American opportunity credit for another student in the same year. If you want to claim either of these credits for 2009, you must use the same credit (Hope or American opportunity) for all eligible students. And, in order to claim the Hope credit for any student, at least one of the students must qualify under the rules for the Midwestern disaster areas. None of the requirements in this paragraph will prevent any eligible student from claiming the lifetime learning credit.

Differences between the American opportunity, Hope, and lifetime learning credits. There are several differences between these three credits. For example, you can claim the Hope credit based on the same student's expenses for no more than 2 tax years. The American opportunity credit can be claimed for the same student for no more than 4 tax years, but any year in which the Hope credit was claimed counts towards the 4 years. There is no limit on the number of years for which you can claim a lifetime learning credit based on the same student's expenses. The differences between the three credits are shown in [Appendix B](#) near the end of this publication.

Can You Claim the Credit

The following rules will help you determine if you are eligible to claim the Hope credit on your tax return.

Who Can Claim the Credit

Generally, you can claim the Hope credit if all four of the following requirements are met.

- You pay qualified education expenses of higher education.
- You pay the education expenses for an eligible student.
- The eligible student is either yourself, your spouse, or a dependent for whom you claim an exemption on your tax return.
- You have at least one student attending an eligible educational institution in a Midwestern disaster area and choose not to claim the American opportunity credit for any student in 2009.

Note. Qualified education expenses paid by a dependent for whom you claim an exemption, or by a third party for that dependent, are considered paid by you.

“[Qualified education expenses](#)” are defined on this page under [What Expenses Qualify](#). “Eligible students” are defined later under [Who Is an Eligible Student](#). A “dependent for whom you claim an exemption” is defined later under [Who Can Claim a Dependent's Expenses](#).

You may find [Figure 3-1](#), on the next page, helpful in determining if you can claim a Hope credit on your tax return.

Who Cannot Claim the Credit

You cannot claim the Hope credit for 2009 if any of the following apply.

- Your filing status is married filing separately.
- You are listed as a dependent in the *Exemptions* section on another person's tax return (such as your parents'). See [Who Can Claim a Dependent's Expenses](#), later.
- Your modified adjusted gross income (MAGI) is \$60,000 or more (\$120,000 or more in the case of a joint return). MAGI is explained later under [Effect of the Amount of Your Income on the Amount of Your Credit](#).
- You (or your spouse) were a nonresident alien for any part of 2009 and the nonresident alien did not elect to be treated as a resident alien for tax purposes. More information on nonresident aliens can be found in Publication 519, U.S. Tax Guide for Aliens.
- You claim the [lifetime learning credit](#) or a [tuition and fees deduction](#) for the same student in 2009.
- You claim the [American opportunity credit](#) for any student in 2009.

What Expenses Qualify

The Hope credit is based on qualified education expenses you pay for yourself, your spouse, or a dependent for whom you claim an exemption on your tax return. Generally, the credit is allowed for qualified education expenses paid in 2009 for an academic period beginning in 2009 or in the first 3 months of 2010.

For example, if you paid \$1,500 in December 2009 for qualified tuition for the spring 2010 semester beginning in January 2010, you may be able to use that \$1,500 in figuring your 2009 credit.

Academic period. An academic period includes a semester, trimester, quarter, or other period of study (such as a summer school session) as reasonably determined by an educational institution. In the case of an educational institution that uses credit hours or clock hours and does not have academic terms, each payment period can be treated as an academic period.

Paid with borrowed funds. You can claim a Hope credit for qualified education expenses paid with the proceeds of a loan. Use the expenses to figure the Hope credit for the year in which the expenses are paid, not the year in which the loan is repaid. Treat loan payments sent directly to the educational institution as paid on the date the institution credits the student's account.

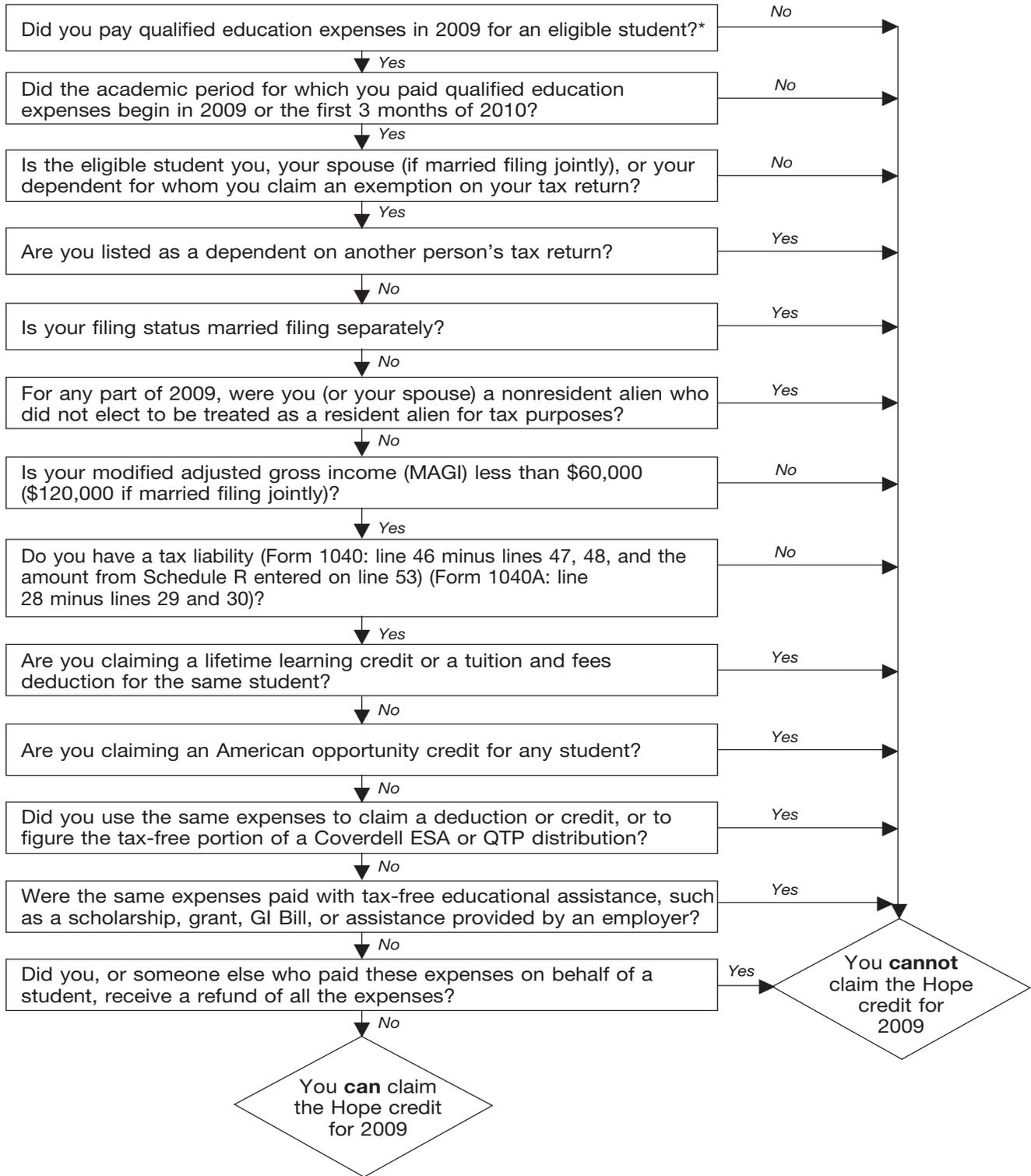
Student withdraws from class(es). You can claim a Hope credit for qualified education expenses not refunded when a student withdraws.

Qualified Education Expenses

For purposes of the Hope credit, qualified education expenses are tuition and certain related expenses required for enrollment or attendance at an eligible educational institution.

Figure 3-1. **Can You Claim the Hope Credit for 2009?**

Before you begin: At least one student who meets the qualifications below must meet the additional requirement of having attended an eligible educational institution in a Midwestern disaster area in 2009. You must claim the Hope credit for that student in order to claim the Hope credit for any other qualified student(s).



*Qualified education expenses paid by a dependent for whom you claim an exemption, or by a third party for that dependent, are considered paid by you.

Eligible educational institution. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education. It includes virtually all accredited public, nonprofit, and proprietary (privately owned profit-making) postsecondary institutions. The educational institution should be able to tell you if it is an eligible educational institution.

Certain educational institutions located outside the United States also participate in the U.S. Department of Education's Federal Student Aid (FSA) programs.

Related expenses. Student-activity fees and expenses for course-related books, supplies, and equipment are included in qualified education expenses only if the fees and expenses must be paid to the institution as a condition of enrollment or attendance.

In the following examples, assume that each student is an eligible student at an eligible educational institution.

Example 1. Jackson is a sophomore in University V's degree program in dentistry. This year, in addition to tuition, he is required to pay a fee to the university for the rental of the dental equipment he will use in this program. Because the equipment rental fee must be paid to University V for enrollment and attendance, Jackson's equipment rental fee is a qualified expense.

Example 2. Donna and Charles, both first-year students at College W, are required to have certain books and other reading materials to use in their mandatory first-year classes. The college has no policy about how students should obtain these materials, but any student who purchases them from College W's bookstore will receive a bill directly from the college. Charles bought his books from a friend, so what he paid for them is not a qualified education expense. Donna bought hers at College W's bookstore. Although Donna paid College W directly for her first-year books and materials, her payment is not a qualified expense because the books and materials are not required to be purchased from College W for enrollment or attendance at the institution.

Example 3. When Marci enrolled at College X for her freshman year, she had to pay a separate student activity fee in addition to her tuition. This activity fee is required of all students, and is used solely to fund on-campus organizations and activities run by students, such as the student newspaper and the student government. No portion of the fee covers personal expenses. Although labeled as a student activity fee, the fee is required for Marci's enrollment and attendance at College X. Therefore, it is a qualified expense.

Students in Midwestern disaster areas. The definition of qualified education expenses is expanded for students in these areas. In addition to tuition and fees required for enrollment or attendance at an eligible educational institution, qualified education expenses for students in Midwestern disaster areas include the following.

1. Books, supplies, and equipment required for enrollment or attendance at an eligible educational institution.
2. For a special needs student, expenses that are necessary for that person's enrollment or attendance at an eligible educational institution.

3. For a student who is at least a half-time student, the reasonable costs of room and board, but only to the extent that the costs are not more than the greater of the following two amounts.
 - a. The allowance for room and board, as determined by the eligible educational institution, that was included in the cost of attendance (for federal financial aid purposes) for a particular academic period and living arrangement of the student.
 - b. The actual amount charged if the student is residing in housing owned or operated by the eligible educational institution.

You will need to contact the eligible educational institution for qualified room and board costs.

No Double Benefit Allowed

You cannot do any of the following.

- Deduct higher education expenses on your income tax return (as, for example, a business expense) and also claim a Hope credit based on those same expenses.
- Claim a Hope credit in the same year that you are claiming a tuition and fees deduction for the same student.
- Claim a Hope credit and a lifetime learning credit based on the same qualified education expenses.
- Claim a Hope credit based on the same expenses used to figure the tax-free portion of a distribution from a Coverdell education savings account (ESA) or qualified tuition program (QTP). See *Coordination With American Opportunity, Hope, and Lifetime Learning Credits* in [chapter 8](#) (Coverdell ESA) and [chapter 9](#) (QTP).
- Claim a credit based on qualified education expenses paid with tax-free educational assistance, such as a scholarship, grant, or assistance provided by an employer. See *Adjustments to Qualified Education Expenses*, next.

Adjustments to Qualified Education Expenses

If you pay qualified education expenses with certain tax-free funds, you cannot claim a credit for those amounts. You must reduce the qualified education expenses by the amount of any tax-free educational assistance and refund(s) you received.

Tax-free educational assistance. This includes:

- The tax-free parts of scholarships and fellowships (see [chapter 1](#)),
- Pell grants (see [chapter 1](#)),
- Employer-provided educational assistance (see [chapter 12](#)),
- Veterans' educational assistance (see [chapter 1](#)) and
- Any other nontaxable (tax-free) payments (other than gifts or inheritances) received as educational assistance.

Refunds. Qualified education expenses do not include expenses for which you, or someone else who paid qualified education expenses on behalf of a student, receive a refund. (For information on expenses paid by a dependent student or third party, see [Who Can Claim a Dependent's Expenses](#), later in this chapter.)

If a refund of expenses paid in 2009 is received before you file your tax return for 2009, simply reduce the amount of the expenses paid by the amount of the refund received. If the refund is received after you file your 2009 tax return, see [When Must the Credit Be Repaid \(Recaptured\)](#), later.

You are considered to receive a refund of expenses when an eligible educational institution refunds loan proceeds to the lender on behalf of the borrower. Follow the above instructions according to when you are considered to receive the refund.

Amounts that do not reduce qualified education expenses. Do not reduce qualified education expenses by amounts paid with funds the student receives as:

- Payment for services, such as wages,
- A loan,
- A gift,
- An inheritance, or
- A withdrawal from the student's personal savings.

Do not reduce the qualified education expenses by any scholarship or fellowship reported as income on the student's tax return in the following situations.

- The use of the money is restricted to costs of attendance (such as room and board) other than qualified education expenses.
- The use of the money is not restricted and is used to pay education expenses that are not qualified (such as room and board).

For examples, see [Adjustments to Qualified Education Expenses](#) in chapter 2.

Expenses That Do Not Qualify

Qualified education expenses do not include amounts paid for:

- Insurance,
- Medical expenses (including student health fees),
- Room and board (but see [Students in Midwestern disaster areas](#) under [Qualified Education Expenses](#), earlier, for an exception),
- Transportation, or
- Similar personal, living, or family expenses.

This is true even if the amount must be paid to the institution as a condition of enrollment or attendance.

Sports, games, hobbies, and noncredit courses. Qualified education expenses generally do not include expenses that relate to any course of instruction or other education that involves sports, games or hobbies, or any noncredit course. However, if the course of instruction or other education is part of the student's degree program, these expenses can qualify.

Comprehensive or bundled fees. Some eligible educational institutions combine all of their fees for an academic

period into one amount. If you do not receive or do not have access to an allocation showing how much you paid for qualified education expenses and how much you paid for personal expenses, such as those listed above, contact the institution. The institution is required to make this allocation and provide you with the amount you paid (or were billed) for qualified education expenses on Form 1098-T, Tuition Statement. See [Figuring the Credit](#), later, for more information about Form 1098-T.

Who Is an Eligible Student

To claim the Hope credit, the student for whom you pay qualified education expenses must be an eligible student. This is a student who meets all of the following requirements.

- The student did not have expenses that were used to figure a Hope credit in any 2 earlier tax years.
- The student had not completed the first 2 years of postsecondary education (generally, the freshman and sophomore years of college) before 2009.
- For at least one academic period beginning in 2009, the student was enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential.
- The student has not been convicted of any federal or state felony for possessing or distributing a controlled substance as of the end of 2009.

These requirements are also shown in [Figure 3-2](#) on the next page.

Completion of first 2 years. A student who was awarded 2 years of academic credit for postsecondary work completed before 2009 has completed the first 2 years of postsecondary education. This student generally would not be an eligible student for purposes of the Hope credit.

Exception. Any academic credit awarded solely on the basis of the student's performance on proficiency examinations is disregarded in determining whether the student has completed 2 years of postsecondary education.

Enrolled at least half-time. A student was enrolled at least half-time if the student was taking at least half the normal full-time work load for his or her course of study.

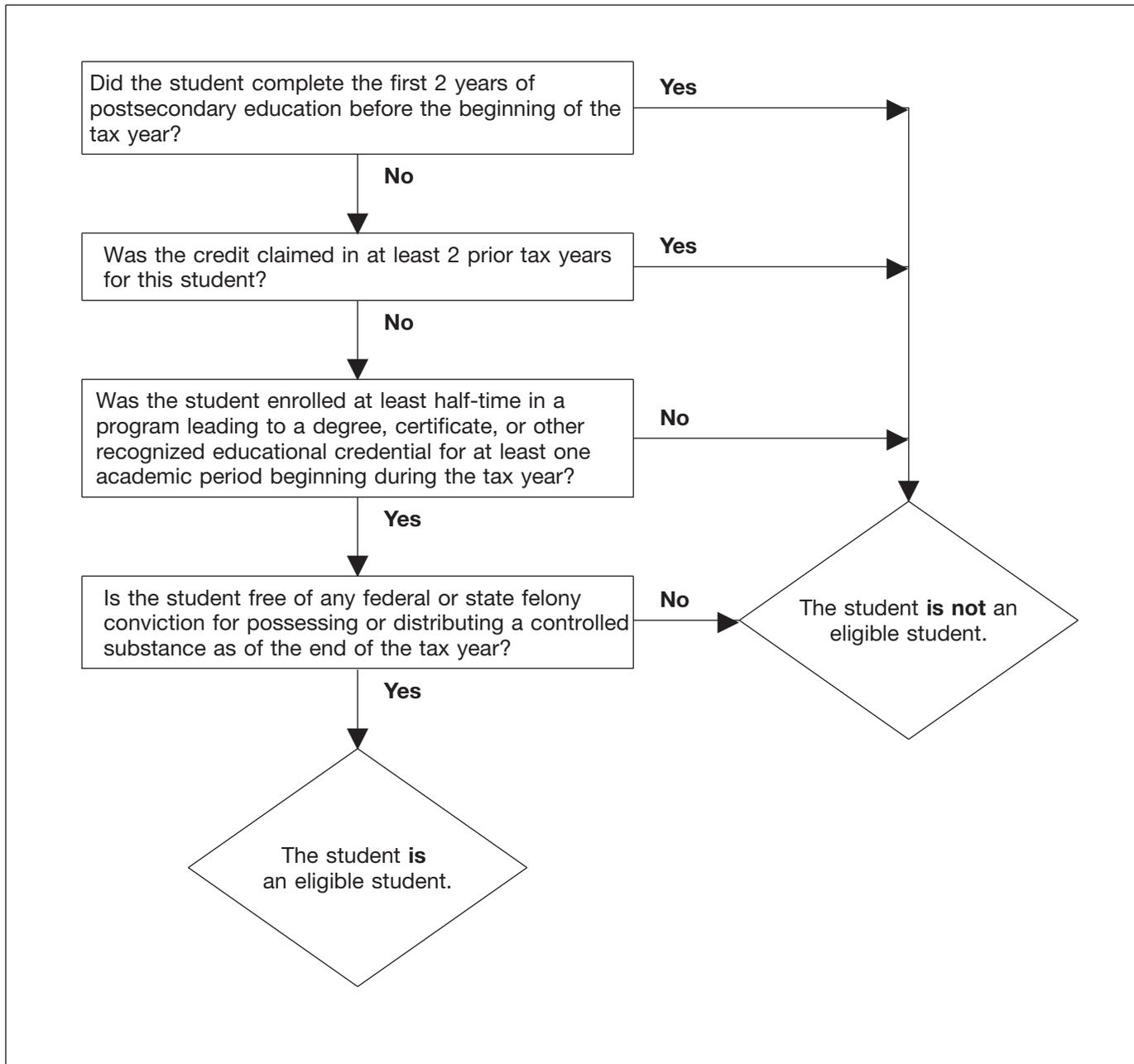
The standard for what is half of the normal full-time work load is determined by each eligible educational institution. However, the standard may not be lower than any of those established by the U.S. Department of Education under the Higher Education Act of 1965.

Example 1. Marty graduated from high school in June 2008. In September, he enrolled in an undergraduate degree program at College U, and attended full-time for both the 2008 fall and 2009 spring semesters. For the 2009 fall semester, Marty was enrolled less than half-time. Because Marty was enrolled in an undergraduate degree program on at least a half-time basis for at least one academic period that began during 2008 and at least one academic period that began during 2009, he is an eligible student for tax years 2008 and 2009 (including the 2009 fall semester when he enrolled at College U on less than a half-time basis).

Example 2. After taking classes at College V on a half-time basis for the 2008 spring and fall semesters,

Figure 3-2. Who Is an Eligible Student for the Hope Credit?

This chart is provided to help you quickly decide whether a student is eligible for the Hope credit. See the text for more details.



Sharon became a full-time student for the 2009 spring semester. College V classified Sharon as a second-semester sophomore for the 2009 spring semester and as a first-semester junior for the 2009 fall semester. Because College V did not classify Sharon as having completed the first 2 years of postsecondary education as of the beginning of 2009, Sharon is an eligible student for tax year 2009. Therefore, the qualified education expenses paid for the 2009 spring semester and the 2009 fall semester are taken into account in calculating any Hope credit for 2009.

Example 3. During the 2008 fall semester, Luis was a high school student who took classes on a half-time basis at College X. Luis was not enrolled as part of a degree

program at College X because College X only admits students to a degree program if they have a high school diploma or equivalent. Because Luis was not enrolled in a degree program at College X during 2008, Luis was not an eligible student for tax year 2008.

Example 4. The facts are the same as in *Example 3*. During the 2009 spring semester, Luis again attended College X but not as part of a degree program. Luis graduated from high school in June 2009. For the 2009 fall semester, Luis enrolled as a full-time student in College X as part of a degree program, and College X awarded Luis credit for his prior coursework at College X. Because Luis was enrolled in a degree program at College X for the 2009 fall term on at least a half-time basis, Luis is an eligible

student for all of tax year 2009. Therefore, the qualified education expenses paid for classes taken at College X during both the 2009 spring semester (during which Luis was not enrolled in a degree program) and the 2009 fall semester are taken into account in computing any Hope credit.

Example 5. Diana graduated from high school in June 2007. In January 2008, Diana enrolled in a 1-year postsecondary certificate program on a full-time basis to obtain a certificate as a travel agent. Diana completed the program in December 2008 and was awarded a certificate. In January 2009, she enrolled in a 1-year postsecondary certificate program on a full-time basis to obtain a certificate as a computer programmer. Diana is an eligible student for both tax years 2008 and 2009 because she meets the degree requirement, the work load requirement, and the year of study requirement for those years.

Who Can Claim a Dependent's Expenses

If there are qualified education expenses for your dependent during a tax year, either you or your dependent, but not both of you, can claim a Hope credit for your dependent's expenses for that year.

For you to claim a Hope credit for your dependent's expenses, you must also claim an exemption for your dependent. You do this by listing your dependent's name and other required information on Form 1040 (or Form 1040A), line 6c.

IF you...	THEN only...
claim an exemption on your tax return for a dependent who is an eligible student	you can claim the Hope credit based on that dependent's expenses. The dependent cannot claim the credit.
do not claim an exemption on your tax return for a dependent who is an eligible student (even if entitled to the exemption)	the dependent can claim the Hope credit. You cannot claim the credit based on this dependent's expenses.

Expenses paid by dependent. If you claim an exemption on your tax return for an eligible student who is your dependent, treat any expenses paid (or deemed paid) by your dependent as if you had paid them. Include these expenses when figuring the amount of your Hope credit.



Qualified education expenses paid directly to an eligible educational institution for your dependent under a court-approved divorce decree are treated as paid by your dependent.

Expenses paid by you. If you claim an exemption for a dependent who is an eligible student, only you can include any expenses you paid when figuring the amount of the Hope credit. If neither you nor anyone else claims an exemption for the dependent, only the dependent can include any expenses you paid when figuring the Hope credit.

Expenses paid by others. Someone other than you, your spouse, or your dependent (such as a relative or former spouse) may make a payment directly to an eligible educational institution to pay for an eligible student's qualified

education expenses. In this case, the student is treated as receiving the payment from the other person and, in turn, paying the institution. If you claim an exemption on your tax return for the student, you are considered to have paid the expenses.

Example. In 2009, Ms. Allen makes a payment directly to an eligible educational institution for her grandson Todd's qualified education expenses. For purposes of claiming a Hope credit, Todd is treated as receiving the money as a gift from his grandmother and, in turn, paying his qualified education expenses himself.

Unless an exemption for Todd is claimed on someone else's 2009 tax return, only Todd can use the payment to claim a Hope credit.

If anyone, such as Todd's parents, claims an exemption for Todd on his or her 2009 tax return, whoever claims the exemption may be able to use the expenses to claim a Hope credit. If anyone else claims an exemption for Todd, Todd cannot claim a Hope credit.

Tuition reduction. When an eligible educational institution provides a reduction in tuition to an employee of the institution (or spouse or dependent child of an employee), the amount of the reduction may or may not be taxable. If it is taxable, the employee is treated as receiving a payment of that amount and, in turn, paying it to the educational institution on behalf of the student. For more information on tuition reductions, see [Qualified Tuition Reduction](#) in chapter 1.

Figuring the Credit

The amount of the Hope credit (per eligible student) is the sum of:

- 100% of the first \$1,200 (\$2,400 if a student in a Midwestern disaster area) of qualified education expenses you paid for the eligible student, and
- 50% of the next \$1,200 (\$2,400 if a student in a Midwestern disaster area) of qualified education expenses you paid for that student.

The maximum amount of Hope credit you can claim in 2009 is \$1,800 (\$3,600 if a student in a Midwestern disaster area) times the number of eligible students. You can claim the full \$1,800 (\$3,600) for each eligible student for whom you paid at least \$2,400 (\$4,800) of qualified education expenses. However, the credit may be reduced based on your MAGI. See [Effect of the Amount of Your Income on the Amount of Your Credit](#) on the next page.

Example. Jon and Karen Frost are married and file a joint tax return. For 2009, they claim an exemption for their dependent daughter on their tax return. Their MAGI is \$70,000. Their daughter is in her sophomore (second) year of studies at the local university, which is in a Midwestern disaster area. Jon and Karen paid qualified education expenses of \$4,300 in 2009.

Jon and Karen, their daughter, and the local university meet all of the requirements for the Hope credit. Jon and Karen can claim a \$3,350 Hope credit in 2009. This is 100% of the first \$2,400 of qualified education expenses, plus 50% of the remaining \$1,900.

Form 1098-T. To help you figure your Hope credit, you should receive [Form 1098-T](#). Generally, an eligible educational institution (such as a college or university) must send

Form 1098-T (or acceptable substitute) to each enrolled student by February 1, 2010. An institution may choose to report either payments received (box 1), or amounts billed (box 2), for qualified education expenses. However, the amounts in boxes 1 and 2 of Form 1098-T might be different from what you actually paid. When figuring the credit, use only the amounts you paid or were deemed to have paid in 2009 for qualified education expenses.

In addition, your Form 1098-T should give you other information for that institution, such as adjustments made for prior years, the amount of scholarships or grants, reimbursements or refunds, and whether you were enrolled at least half-time or were a graduate student.

The eligible educational institution may ask for a completed Form W-9S, Request for Student's or Borrower's Taxpayer Identification Number and Certification, or similar statement to obtain the student's name, address, and taxpayer identification number.

Effect of the Amount of Your Income on the Amount of Your Credit

The amount of your Hope credit is phased out (gradually reduced) if your MAGI is between \$50,000 and \$60,000 (\$100,000 and \$120,000 if you file a joint return). You cannot claim a Hope credit if your MAGI is \$60,000 or more (\$120,000 or more if you file a joint return).

Modified adjusted gross income (MAGI). For most taxpayers, MAGI is adjusted gross income (AGI) as figured on their federal income tax return.

MAGI when using Form 1040A. If you file Form 1040A, your MAGI is the AGI on line 22 of that form.

MAGI when using Form 1040. If you file Form 1040, your MAGI is the AGI on line 38 of that form, modified by adding back any:

1. Foreign earned income exclusion,
2. Foreign housing exclusion,
3. Foreign housing deduction,
4. Exclusion of income by bona fide residents of American Samoa, and
5. Exclusion of income by bona fide residents of Puerto Rico.

You can use [Worksheet 3-1](#), next, to figure your MAGI.

Worksheet 3-1. MAGI for the Hope Credit

1. Enter your adjusted gross income (Form 1040, line 38)	1. _____
2. Enter your foreign earned income exclusion and/or housing exclusion (Form 2555, line 45, or Form 2555-EZ, line 18)	2. _____
3. Enter your foreign housing deduction (Form 2555, line 50)	3. _____
4. Enter the amount of income from Puerto Rico you are excluding	4. _____
5. Enter the amount of income from American Samoa you are excluding (Form 4563, line 15)	5. _____
6. Add the amounts on lines 2, 3, 4, and 5	6. _____
7. Add the amounts on lines 1 and 6. This is your modified adjusted gross income . Enter this amount on Form 8863, line 20	7. _____

Phaseout. If your MAGI is within the range of incomes where the credit must be reduced, you will figure your reduced credit using lines 17–29 of Form 8863. The same method is shown in the following example.

Example. You are filing a joint return and your MAGI is \$101,000. In 2009, you paid \$5,000 of qualified education expenses.

You figure a tentative Hope credit of \$1,800 (100% of the first \$1,200 of qualified education expenses, plus 50% of the next \$1,200 of qualified education expenses).

Because your MAGI is within the range of incomes where the credit must be reduced, you must multiply your tentative credit (\$1,800) by a fraction. The numerator of the fraction is \$120,000 (the upper limit for those filing a joint return) minus your MAGI. The denominator is \$20,000, the range of incomes for the phaseout (\$100,000 to \$120,000). The result is the amount of your phased out (reduced) Hope credit (\$1,710).

$$\$1,800 \times \frac{\$120,000 - \$101,000}{\$20,000} = \$1,710$$

Claiming the Credit

You claim the Hope credit by completing Parts II and V of Form 8863 and submitting it with your Form 1040 or 1040A. Enter the credit on Form 1040, line 49, or on Form 1040A, line 31. A filled-in [Form 8863](#) is shown at the end of this chapter.

When Must the Credit Be Repaid (Recaptured)

If, after you file your 2009 tax return, you or someone else receives tax-free educational assistance for, or a refund of, an expense you used to figure a Hope credit on that return, you may have to repay all or part of the credit. You must refigure your Hope credit for 2009 as if the assistance or refund was received in 2009. Subtract the amount of the refigured credit from the amount of the credit you claimed. The result is the amount you must repay. Add the repayment (recapture) to your tax liability for the year in which you receive the assistance or refund. See the instructions for your tax return for that year to find out how to report the recapture amount. Your original 2009 tax return does not change.

Example. You paid \$8,000 tuition and fees in December 2009, and your child began college in January 2010. You filed your 2009 tax return on February 15, 2010, and claimed a Hope credit of \$1,800. After you filed your return, your child dropped two courses and you received a refund of \$6,000. You must refigure your 2009 Hope credit using \$2,000 of qualified education expenses instead of \$8,000. The refigured credit is \$1,600. Include the difference of \$200 in the total on the "Tax" line of your 2010 Form 1040 or 1040A.

Illustrated Example

Jim Grant, a single taxpayer, enrolled full-time at a local college in a Midwestern disaster area to earn a degree in computer science. This is the first year of his postsecondary education. During 2009, he paid \$5,000 for his qualified 2009 tuition. He received Form 1098-T (shown below) from the college. He and the college meet all of the requirements for the Hope credit. Jim's MAGI is \$37,000. His income tax liability, before credits, is \$3,734. He claims no credits other than the Hope credit. He figures his credit of \$3,600 as shown on the [Form 8863](#) on pages 29 and 30.

CORRECTED

FILER'S name, street address, city, state, ZIP code, and telephone number <i>State University Metropolis, OH 72727</i>		1 Payments received for qualified tuition and related expenses \$ 5000	OMB No. 1545-1574 2009 Form 1098-T	Tuition Statement
		2 Amounts billed for qualified tuition and related expenses \$		
FILER'S federal identification no. <i>10-1234567</i>	STUDENT'S social security number <i>000-00-4321</i>	3 If this box is checked, your educational institution has changed its reporting method for 2009 <input type="checkbox"/>		Copy B For Student This is important tax information and is being furnished to the Internal Revenue Service.
STUDENT'S name <i>Jim Grant</i>		4 Adjustments made for a prior year \$	5 Scholarships or grants \$	
Street address (including apt. no.) <i>1010 Anywhere St.</i>		6 Adjustments to scholarships or grants for a prior year \$	7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January - March 2010 <input type="checkbox"/>	
City, state, and ZIP code <i>Hometown, OH 77777</i>				
Service Provider/Acct. No. (see instr.)	8 Checked if at least half-time student <input checked="" type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	10 Ins. contract reimb./refund \$	

Form **1098-T**

(keep for your records)

Department of the Treasury - Internal Revenue Service

Education Credits (American Opportunity, Hope, and Lifetime Learning Credits)

▶ See separate Instructions to find out if you are eligible to take the credits.
 ▶ Attach to Form 1040 or Form 1040A.

Name(s) shown on return
 Jim Grant

Your social security number
 000-00-4321

Caution: You **cannot** take both an education credit and the tuition and fees deduction (see Form 8917) for the **same student** for the same year.

Part I American Opportunity Credit

Use Part II if you are claiming the Hope credit for a student attending school in a Midwestern disaster area. If you use Part II, you cannot use Part I for any student.

Caution: You **cannot** take the American opportunity credit for more than **4** tax years for the **same student**.

1	(a) Student's name (as shown on page 1 of your tax return) First name Last name	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (see instructions). Do not enter more than \$4,000 for each student.	(d) Subtract \$2,000 from the amount in column (c). If zero or less, enter -0-.	(e) Multiply the amount in column (d) by 25% (.25)	(f) If column (d) is zero, enter the amount from column (c). Otherwise, add \$2,000 to the amount in column (e).
2	Tentative American opportunity credit. Add the amounts on line 1, column (f). Skip Part II if line 2 is more than zero. If you are taking the lifetime learning credit for a different student, go to Part III; otherwise, go to Part IV ▶					2

Part II Hope Credit

Use this part if you are claiming the Hope credit for a student attending school in a Midwestern disaster area and elect to waive the computation method in Part I for all students.

Caution: You **cannot** take the Hope credit for more than **2** tax years for the **same student**.

3	(a) Student's name (as shown on page 1 of your tax return) First name Last name	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (see instructions). Do not enter more than \$2,400* for each student.	(d) Enter the smaller of the amount in column (c) or \$1,200**	(e) Add column (c) and column (d)	(f) Enter one-half of the amount in column (e)
	Jim Grant	000-00-4321	4,800	2,400	7,200	3,600
4	Tentative Hope credit. Add the amounts on line 3, column (f). If you are taking the lifetime learning credit for a different student, go to Part III; otherwise, go to Part V ▶					4 3,600

*For each student who attended an eligible educational institution in a Midwestern disaster area, **do not** enter more than \$4,800.

For each student who attended an eligible educational institution in a Midwestern disaster area, enter the **smaller of the amount in column (c) or \$2,400.

Part III Lifetime Learning Credit. Caution: You **cannot** take the American opportunity credit or the Hope credit and the lifetime learning credit for the **same student** in the same year.

5	(a) Student's name (as shown on page 1 of your tax return) First name Last name	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (see instructions)
6	Add the amounts on line 5, column (c), and enter the total		6
7a	Enter the smaller of line 6 or \$10,000		7a
b	For students who attended an eligible educational institution in a Midwestern disaster area, enter the smaller of \$10,000 or their qualified expenses included on line 6 (see special rules on page 3 of the instructions)		7b
c	Subtract line 7b from line 7a		7c
8a	Multiply line 7b by 40% (.40)		8a
b	Multiply line 7c by 20% (.20)		8b
c	Tentative lifetime learning credit. Add lines 8a and 8b. If you have an entry on line 2, go to Part IV; otherwise go to Part V		8c

Part IV Refundable American Opportunity Credit

9	Enter the amount from line 2			9	
10	Enter: \$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow(er)	10			
11	Enter the amount from Form 1040, line 38,* or Form 1040A, line 22	11			
12	Subtract line 11 from line 10. If zero or less, stop ; you cannot take any education credit	12			
13	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er)	13			
14	If line 12 is: <ul style="list-style-type: none"> • Equal to or more than line 13, enter 1.000 on line 14 • Less than line 13, divide line 12 by line 13. Enter the result as a decimal (rounded to at least three places) 			14	.
15	Multiply line 9 by line 14. Caution: If you were under age 24 at the end of the year and meet the conditions on page 5 of the instructions, you cannot take the refundable American opportunity credit. Skip line 16, enter the amount from line 15 on line 17, and check this box <input type="checkbox"/>			15	
16	Refundable American opportunity credit. Multiply line 15 by 40% (.40). Enter the amount here and on Form 1040, line 66, or Form 1040A, line 43. Then go to line 17 below			16	

Part V Nonrefundable Education Credits

17	Subtract line 16 from line 15			17	
18	Add line 4 and line 8c. If you have no entry on these lines, skip lines 19 through 24, and enter the amount from line 17 on line 25			18	3,600
19	Enter: \$120,000 if married filing jointly; \$60,000 if single, head of household, or qualifying widow(er)	19	60,000		
20	Enter the amount from Form 1040, line 38,* or Form 1040A, line 22	20	37,000		
21	Subtract line 20 from line 19. If zero or less, skip lines 22 and 23, and enter zero on line 24	21	23,000		
22	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er)	22	10,000		
23	If line 21 is: <ul style="list-style-type: none"> • Equal to or more than line 22, enter the amount from line 18 on line 24 and go to line 25 • Less than line 22, divide line 21 by line 22. Enter the result as a decimal (rounded to at least three places) 			23	.
24	Multiply line 18 by line 23			24	3,600
25	Add line 17 and line 24. If zero, stop ; you cannot take any nonrefundable education credit			25	3,600
26	Enter the amount from Form 1040, line 46, or Form 1040A, line 28			26	3,734
27	Enter the total, if any, of your credits from: <ul style="list-style-type: none"> • Form 1040, lines 47, 48, and the amount from Schedule R entered on line 53 • Form 1040A, lines 29 and 30 			27	0
28	Subtract line 27 from line 26. If zero or less, stop ; you cannot take any nonrefundable education credit			28	3,734
29	Nonrefundable education credits. Enter the smaller of line 25 or line 28 here and on Form 1040, line 49, or Form 1040A, line 31			29	3,600

*If you are filing Form 2555, 2555-EZ, or 4563, or you are excluding income from Puerto Rico, see Pub. 970 for the amount to enter.