

7.

Tuition and Fees Deduction

Introduction

You may be able to deduct qualified education expenses paid during the year for yourself, your spouse, or your dependent(s). You cannot claim this deduction if your filing status is married filing separately or if another person can claim an exemption for you as a dependent on his or her tax return. The qualified expenses must be for higher education, as explained later under [Qualified Education Expenses](#).

What is the tax benefit of the tuition and fees deduction. The tuition and fees deduction can reduce the amount of your income subject to tax by up to \$4,000.

This deduction is taken as an adjustment to income. This means you can claim this deduction even if you do not itemize deductions on Schedule A (Form 1040). This deduction may be beneficial to you if you do not qualify for the American opportunity, Hope, or lifetime learning credits.

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 to one or more of the education credits (chapters [2](#), [3](#), and [4](#)).

[Table 7-1](#) summarizes the features of the tuition and fees deduction.

Can You Claim the Deduction

The following rules will help you determine if you can claim the tuition and fees deduction.

Who Can Claim the Deduction

Generally, you can claim the tuition and fees deduction if all three of the following requirements are met.

1. You pay qualified education expenses of higher education.
2. You pay the education expenses for an eligible student.
3. The eligible student is yourself, your spouse, or your dependent for whom you claim an exemption on your tax return.

[“Qualified Education Expenses”](#) are defined on the next page. “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](#).

Table 7-1. Tuition and Fees Deduction at a Glance

Do not rely on this table alone. Refer to the text for complete details.

Question	Answer
What is the maximum benefit?	You can reduce your income subject to tax by up to \$4,000.
Where is the deduction taken?	As an adjustment to income on Form 1040 or Form 1040A.
For whom must the expenses be paid?	A student enrolled in an eligible educational institution who is either: <ul style="list-style-type: none">• you,• your spouse, or• your dependent for whom you claim an exemption.
What tuition and fees are deductible?	Tuition and fees required for enrollment or attendance at an eligible postsecondary educational institution, but not including personal, living, or family expenses, such as room and board.

Who Cannot Claim the Deduction

You cannot claim the tuition and fees deduction if any of the following apply.

- Your filing status is married filing separately.
- Another person can claim an exemption for you as a dependent on his or her tax return. You cannot take the deduction even if the other person does not actually claim that exemption.
- Your modified adjusted gross income (MAGI) is more than \$80,000 (\$160,000 if filing a joint return).
- 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 or anyone else claims an American opportunity, Hope, or lifetime learning credit in 2009 with respect to expenses of the student for whom the qualified education expenses were paid.

What Expenses Qualify

The tuition and fees deduction 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 deduction is allowed for qualified education expenses paid in 2009 in connection with enrollment at an institution of higher education during 2009 or 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 deduction.

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 tuition and fees deduction for qualified education expenses paid with the proceeds of a loan. Use the expenses to figure the deduction 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 tuition and fees deduction for qualified education expenses not refunded when a student withdraws.

Qualified Education Expenses

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

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 and each college or university 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 education 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 qualified education expenses you deduct under any other provision of the law, for example, as a business expense.
- Deduct qualified education expenses for a student on your income tax return if you or anyone else claims an American opportunity, Hope, or lifetime learning credit for that same student in the same year.
- Deduct qualified education expenses that have been used to figure the tax-free portion of a distribution from a Coverdell education savings account (ESA) or a qualified tuition program (QTP). For a QTP, this applies only to the amount of tax-free earnings that were distributed, not to the recovery of contributions to the program. See *Coordination With Tuition and Fees Deduction* in [chapter 9](#).
- Deduct qualified education expenses that have been paid with tax-free interest on U.S. savings bonds

(Form 8815). See *Figuring the Tax-Free Amount in chapter 11*.

- Deduct qualified education expenses that have been paid with tax-free educational assistance, such as a scholarship, grant, or assistance provided by an employer. See the following section on *Adjustments to Qualified Education Expenses*.

Adjustments to Qualified Education Expenses

If you pay qualified education expenses with certain tax-free funds, you cannot claim a deduction 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 part 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.)

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 Deduction Be Repaid \(Recaptured\)](#), near the end of this chapter.

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).

Example 1. In 2009, Jackie paid \$3,000 for tuition and \$5,000 for room and board at University X. The university did not require her to pay any fees in addition to her tuition in order to enroll in or attend classes. To help pay these costs, she was awarded a \$2,000 scholarship and a \$4,000 student loan.

The terms of the scholarship state that it can be used to pay any of Jackie's college expenses. Because she applied it toward her tuition, the scholarship is tax free. Therefore, for purposes of figuring the tuition and fees deduction, she must first use the \$2,000 scholarship to reduce her tuition (her only qualified education expense). The student loan is not tax-free educational assistance, so she does not use it to reduce her qualified expenses. Jackie is treated as having paid \$1,000 in qualified education expenses (\$3,000 tuition – \$2,000 scholarship) in 2009.

Example 2. The facts are the same as in *Example 1*, except that Jackie uses the \$2,000 scholarship to pay room and board and, therefore, reports her entire scholarship as income on her tax return. In this case, the scholarship is allocated to expenses other than qualified education expenses. Jackie is treated as paying the entire \$3,000 tuition with other funds, and can figure her tuition and fees deduction on the entire \$3,000.

Expenses That Do Not Qualify

Qualified education expenses do not include amounts paid for:

- Insurance,
- Medical expenses (including student health fees),
- Room and board (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 Deduction](#), later, for more information about Form 1098-T.

Who Is an Eligible Student

For purposes of the tuition and fees deduction, an eligible student is a student who is enrolled in one or more courses at an eligible educational institution (as defined under [Qualified Education Expenses](#), earlier). The student must have either a high school diploma or a General Educational Development (GED) credential.

Who Can Claim a Dependent's Expenses

Generally, in order to claim the tuition and fees deduction for qualified education expenses for a dependent, you must:

1. Have paid the expenses, and
2. Claim an exemption for the student as a dependent.

For you to be able to deduct qualified education expenses for your dependent, you must claim an exemption for that individual. You do this by listing your dependent's name and other required information on Form 1040 (or Form 1040A), line 6c.

IF your dependent is an eligible student and you...	AND...	THEN...
claim an exemption for your dependent	you paid all qualified education expenses for your dependent	only you can deduct the qualified education expenses that you paid. Your dependent cannot take a deduction.
claim an exemption for your dependent	your dependent paid all qualified education expenses	no one is allowed to take a deduction.
do not claim an exemption for your dependent, but are eligible to	you paid all qualified education expenses	no one is allowed to take a deduction.
do not claim an exemption for your dependent, but are eligible to	your dependent paid all qualified education expenses	no one is allowed to take a deduction.
are not eligible to claim an exemption for your dependent	you paid all qualified education expenses	only your dependent can deduct the amount you paid. The amount you paid is treated as a gift to your dependent.
are not eligible to claim an exemption for your dependent	your dependent paid all qualified education expenses	only your dependent can take a deduction.

Expenses paid by dependent. If your dependent pays qualified education expenses and you can claim an exemption for your dependent on your tax return, no one can take a tuition and fees deduction for those expenses. Neither you nor your dependent can deduct the expenses.

For purposes of the tuition and fees deduction, you are not treated as paying any expenses actually paid by a dependent for whom you or anyone other than the dependent can claim an exemption. This rule applies even if you do not claim an exemption for your dependent on your tax return.

However, if your dependent pays qualified education expenses and no one can claim an exemption for your dependent on his or her tax return, your dependent can take a tuition and fees deduction for those expenses, even if they are paid with the proceeds of a student loan.

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 your tuition and fees deduction. If neither you nor anyone else can claim an exemption for a dependent who is an eligible student, the dependent can include any expenses you paid when figuring the amount of his or her tuition and fees deduction.

Expenses paid under divorce decree. Qualified education expenses paid directly to an eligible educational institution for a student under a court-approved divorce decree are treated as paid by the student. Only the student would be eligible to take a tuition and fees deduction for that payment, and then only if no one else could claim an exemption for the student.

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, or can claim, an exemption on your tax return for the student, you are not considered to have paid the expenses and you cannot deduct them. If the student is not a dependent, only the student can deduct payments made directly to the institution for his or her expenses. If the student is your dependent, no one can deduct the payments.

Example. In 2009, Ms. Baker makes a payment directly to an eligible educational institution for her grandson Dan's qualified education expenses. For purposes of deducting tuition and fees, Dan is treated as receiving the money as a gift from his grandmother and, in turn, paying his own qualified education expenses.

If an exemption cannot be claimed for Dan on anyone else's tax return, only Dan can claim a tuition and fees deduction for his grandmother's payment. If someone else can claim an exemption for Dan, no one will be allowed a deduction for Ms. Baker's payment.

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 Deduction

The maximum tuition and fees deduction in 2009 is \$4,000, \$2,000, or \$0, depending on the amount of your MAGI. See [Effect of the Amount of Your Income on the Amount of Your Deduction](#), below.

Form 1098-T. To help you figure your tuition and fees deduction, you should receive [Form 1098-T](#) (see chapter 4 for an example). 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 amount in boxes 1 and 2 of Form 1098-T might be different than what you actually paid. When figuring the deduction, use only the amounts you 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 Deduction

If your MAGI is not more than \$65,000 (\$130,000 if you are married filing jointly), your maximum tuition and fees deduction is \$4,000. If your MAGI is larger than \$65,000 (\$130,000 if you are married filing jointly), but is not more than \$80,000 (\$160,000 if you are married filing jointly), your maximum deduction is \$2,000. No tuition and fees deduction is allowed if your MAGI is larger than \$80,000 (\$160,000 if you are married filing jointly).

Modified adjusted gross income (MAGI). For most taxpayers, MAGI is adjusted gross income (AGI) as figured on their federal income tax return before subtracting any deduction for tuition and fees. However, as discussed below, there may be other modifications.

MAGI when using Form 1040A. If you file Form 1040A, your MAGI is the AGI on line 22 of that form, figured without taking into account any amount on line 19 (Tuition and fees deduction).

MAGI when using Form 1040. If you file Form 1040, your MAGI is the AGI on line 38 of that form, figured without taking into account any amount on line 34 (Tuition and fees deduction) or line 35 (Domestic production activities deduction), and 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.

Table 7-2 shows how the amount of your MAGI can affect your tuition and fees deduction.

You can use [Worksheet 7-1](#) on the next page to figure your MAGI.

Table 7-2. **Effect of MAGI on Maximum Tuition and Fees Deduction**

IF your filing status is...	AND your MAGI is...	THEN your maximum tuition and fees deduction is...
single, head of household, or qualifying widow(er)	not more than \$65,000	\$4,000.
	more than \$65,000 but not more than \$80,000	\$2,000.
	more than \$80,000	\$0.
married filing joint return	not more than \$130,000	\$4,000.
	more than \$130,000 but not more than \$160,000	\$2,000.
	more than \$160,000	\$0.

Claiming the Deduction

You claim a tuition and fees deduction by completing Form 8917 and submitting it with your Form 1040 or Form 1040A. Enter the deduction on Form 1040, line 34, or Form 1040A, line 19. A filled-in [Form 8917](#) is shown at the end of this chapter.

When Must the Deduction 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 tuition and fees deduction on that return, you may have to repay all or part of the deduction. This applies to assistance and refunds received by the individual claiming the deduction, and, in the case of a student who claims the deduction, refunds received by anyone else who paid such expenses for the student.

You must include the assistance or refund in income in the year you receive it to the extent that the deduction of the refunded amount reduced your tax in 2009. Refigure your tuition and fees deduction for 2009 as if the tax-free assistance or refund was received in 2009. Subtract the amount of the refigured deduction from the amount of the deduction you claimed on your 2009 tax return. The result is the amount you must include in income (recapture). Add the recapture amount to your income for the year in which you received the assistance or refund by entering it on the "Other income" line of Form 1040. Form 1040A cannot be used. Your 2009 tax return does not change.

Example. You and your spouse paid \$3,000 tuition and fees in December 2009 for your child who began college in January 2010. You filed your 2009 Form 1040 on February 15, 2010, showing a MAGI of \$150,000. On that return you claimed a tuition and fees deduction of \$2,000 (MAGI

Worksheet 7-1. **MAGI for the Tuition and Fees Deduction**

Keep for Your Records



Use this worksheet if you are filing **Form 2555, 2555-EZ, or 4563**, or you are excluding income from sources within Puerto Rico. Before using this worksheet, you must complete **Form 1040**, lines 7 through 33 and figure any amount to be entered on the dotted line next to line 36.

1. Enter the amount from Form 1040, line 22	1. _____
2. Enter the total from Form 1040, lines 23 through 33	2. _____
3. Enter the total of any amounts entered on the dotted line next to Form 1040, line 36	3. _____
4. Add lines 2 and 3	4. _____
5. Subtract line 4 from line 1	5. _____
6. Enter your foreign earned income exclusion and/or housing exclusion (Form 2555, line 45, or Form 2555-EZ, line 18)	6. _____
7. Enter your foreign housing deduction (Form 2555, line 50)	7. _____
8. Enter the amount of income from Puerto Rico you are excluding	8. _____
9. Enter the amount of income from American Samoa you are excluding (Form 4563, line 15)	9. _____
10. Add lines 5 through 9. This is your modified adjusted gross income	10. _____

Note. If the amount on line 10 is more than \$80,000 (\$160,000 if married filing jointly), you cannot take the deduction for tuition and fees.

limitation). After you filed your return, your child dropped two courses and you received a refund of \$1,400. You must refigure your 2009 tuition and fees deduction using \$1,600 of qualified education expenses instead of \$3,000. Your refigured deduction is \$1,600. You must include the difference of \$400 (\$2,000 original deduction – \$1,600 refigured deduction) on the “Other income” line of your 2010 Form 1040.

Illustrated Example

Tim Pfister, a single taxpayer, enrolled full-time at a local college to earn a degree in engineering. This is the first year of his postsecondary education. During 2009, he paid \$3,600 for his qualified 2009 tuition expense. Both he and the college meet all of the requirements for the tuition and fees deduction. Tim’s total income (Form 1040, line 22) and MAGI are \$26,000. He figures his deduction of \$3,600 as shown on [Form 8917](#) on the next page.

Tuition and Fees Deduction

Department of the Treasury
Internal Revenue Service

▶ See Instructions.

▶ Attach to Form 1040 or Form 1040A.

Name(s) shown on return
Tim Pfister

Your social security number
000 | 00 | 5432



You cannot take both an education credit from Form 8863 and the tuition and fees deduction from this form for the same student for the same tax year.

Before you begin: ✓ To see if you qualify for this deduction, see *Who Can Take the Deduction* in the instructions below.
 ✓ If you file Form 1040, figure any write-in adjustments to be entered on the dotted line next to Form 1040, line 36. See the 2009 Form 1040 instructions for line 36.

1	(a) Student's name (as shown on page 1 of your tax return)	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (see instructions)
	First name Last name		
	Tim Pfister	000 00 5432	3,600
2	Add the amounts on line 1, column (c), and enter the total		3,600
3	Enter the amount from Form 1040, line 22, or Form 1040A, line 15	26,000	
4	Enter the total from either: ● Form 1040, lines 23 through 33, plus any write-in adjustments entered on the dotted line next to Form 1040, line 36, or ● Form 1040A, lines 16 through 18	-0-	
5	Subtract line 4 from line 3.* If the result is more than \$80,000 (\$160,000 if married filing jointly), stop ; you cannot take the deduction for tuition and fees		26,000
*If you are filing Form 2555, 2555-EZ, or 4563, or you are excluding income from Puerto Rico, see <i>Effect of the Amount of Your Income on the Amount of Your Deduction</i> in Pub. 970, chapter 7, to figure the amount to enter on line 5.			
6	Tuition and fees deduction. Is the amount on line 5 more than \$65,000 (\$130,000 if married filing jointly)? <input type="checkbox"/> Yes. Enter the smaller of line 2, or \$2,000. } <input checked="" type="checkbox"/> No. Enter the smaller of line 2, or \$4,000. }		3,600

Also enter this amount on Form 1040, line 34, or Form 1040A, line 19.

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Purpose of Form

Use Form 8917 to figure and take the deduction for tuition and fees expenses **paid in 2009**.

This deduction is based on qualified education expenses paid to an eligible postsecondary educational institution. See *What Expenses Qualify*, on page 2, for more information.



You may be able to take the American opportunity credit, Hope credit, or lifetime learning credit for your education expenses instead of the tuition and fees deduction. Figure your tax both ways and choose the one that gives you the lower tax. See Form 8863, Education Credits, and Pub. 970, Tax Benefits for Education, for more information about these credits.

Who Can Take the Deduction

You may be able to take the deduction if you, your spouse, or a dependent you claim on your tax return was a student enrolled at or attending an eligible educational institution. The deduction is based on the amount of qualified education expenses you paid for the student in 2009 for academic periods beginning in 2009 and the first 3 months of 2010.



Qualified education expenses must be reduced by any expenses paid directly or indirectly using tax-free educational assistance. See Tax-free educational assistance and refunds of qualified education expenses on page 2.

Generally, in order to claim the deduction for qualified education expenses for a dependent, you must have paid the expenses in 2009 and must claim an exemption for the student as a dependent on your 2009 tax return (line 6c of Form 1040 or 1040A). For additional information, see chapter 7 of Pub. 970.

8.

Coverdell Education Savings Account (ESA)

Introduction

If your modified adjusted gross income (MAGI) is less than \$110,000 (\$220,000 if filing a joint return), you may be able to establish a Coverdell ESA to finance the qualified education expenses of a designated beneficiary. For most taxpayers, MAGI is the adjusted gross income as figured on their federal income tax return.

There is no limit on the number of separate Coverdell ESAs that can be established for a designated beneficiary. However, total contributions for the beneficiary in any year cannot be more than \$2,000, no matter how many accounts have been established. See [Contributions](#), later.



This benefit applies not only to higher education expenses, but also to elementary and secondary education expenses.

What is the tax benefit of the Coverdell ESA. Contributions to a Coverdell ESA are not deductible, but amounts deposited in the account grow tax free until distributed.

If, for a year, distributions from an account are not more than a designated beneficiary's qualified education expenses at an eligible educational institution, the beneficiary will not owe tax on the distributions. See [Tax-Free Distributions](#), later.

Table 8-1 summarizes the main features of the Coverdell ESA.

Table 8-1. Coverdell ESA at a Glance

Do not rely on this table alone. It provides only general highlights. See the text for definitions of terms in bold type and for more complete explanations.

Question	Answer
What is a Coverdell ESA ?	A savings account that is set up to pay the qualified education expenses of a designated beneficiary .
Where can it be established?	It can be opened in the United States at any bank or other IRS-approved entity that offers Coverdell ESAs.
Who can have a Coverdell ESA?	Any beneficiary who is under age 18 or is a special needs beneficiary.
Who can contribute to a Coverdell ESA?	Generally, any individual (including the beneficiary) whose modified adjusted gross income for the year is less than \$110,000 (\$220,000 in the case of a joint return).
Are distributions tax free?	Yes, if the distributions are not more than the beneficiary's adjusted qualified education expenses for the year.

What Is a Coverdell ESA

A Coverdell ESA is a trust or custodial account created or organized in the United States only for the purpose of paying the qualified education expenses of the [designated beneficiary](#) (defined below) of the account.

When the account is established, the designated beneficiary must be under age 18 or a special needs beneficiary.

To be treated as a Coverdell ESA, the account must be designated as a Coverdell ESA when it is created.

The document creating and governing the account must be in writing and must satisfy the following requirements.

1. The trustee or custodian must be a bank or an entity approved by the IRS.
2. The document must provide that the trustee or custodian can only accept a contribution that meets all of the following conditions.
 - a. The contribution is in cash.
 - b. The contribution is made before the beneficiary reaches age 18, unless the beneficiary is a special needs beneficiary.
 - c. The contribution would not result in total contributions for the year (not including rollover contributions) being more than \$2,000.
3. Money in the account cannot be invested in life insurance contracts.
4. Money in the account cannot be combined with other property except in a common trust fund or common investment fund.
5. The balance in the account generally must be distributed within 30 days after the earlier of the following events.
 - a. The beneficiary reaches age 30, unless the beneficiary is a special needs beneficiary.
 - b. The beneficiary's death.

Qualified Education Expenses

Generally, these are expenses required for the enrollment or attendance of the designated beneficiary at an eligible educational institution. For purposes of Coverdell ESAs, the expenses can be either qualified higher education expenses or qualified elementary and secondary education expenses.

Designated beneficiary. This is the individual named in the document creating the trust or custodial account to receive the benefit of the funds in the account.

Contributions to a qualified tuition program (QTP). A contribution to a QTP is a qualified education expense if the contribution is on behalf of the designated beneficiary of the Coverdell ESA. In the case of a change in beneficiary, this is a qualified expense only if the new beneficiary is a family member of that designated beneficiary. See [chapter 9, Qualified Tuition Plan \(QTP\)](#).