

Education Credits for TY21

Changes for TY21

- *Tuition and Fees Adjustment is repealed* *See 4012 What's New for TY21*
- *Earned Income Credit (EIC) age limits changed*
 Minimum age 19 or
 18 for any qualified former foster youth or qualified homeless youth
 NO maximum age
- *CARES Higher Education Emergency Grants* **Show IRS FAQ sheet**
 Tax Free
 Can be used to offset Qualifying Education Expenses
 Treated as a "gift"

Education benefits *Where can they be used?* **Show 4012 J-2**

- *Work related education expenses can be deducted against business income*
- *Credits can reduce the tax you pay or be reimbursed to you*
- *Some funding sources are treated with offsets for qualified educational expenses*
 Eg: Coverdell or 529 plans *Check 4012 pg J-2*

Education benefits *What are Qualifying Expenses?* **Show 4012 J-3**

- *Tuition and required enrollment fees are always qualified*
- *Generally, books, supplies and equipment* *Check the Credit or Funding Source*
- *Expenses for special needs services* *Check the Credit or Funding Source*
- *Room and Board* *Check the Credit or Funding Source*

The Tables on pages J-2, 3 and 4 in the 4012 are invaluable for Qualifying Expenses

We don't see the Lifetime Learning Credit very often

Coverdell or 529 plan funding sources even less

If you do see these opportunities Go to the 4012 for guidance

Training Focus

- American Opportunity Credit (AOC)
- Bogart's Education Benefits Calculator

American Opportunity Credit (AOC)

Show 4012 J-5

Benefits

\$2500 possible reduction in tax
40% refundable, \$1000

Constraints

Student did not complete first four years of postsecondary school before 2021
Student eligible for only 4 tax years
Student must be pursuing degree or recognized credential
Student must be enrolled at least half-time
Student must not have been convicted of felony drug possession or distribution
Student must have qualifying expenses
Student must have made payments for 2021 terms or first term 2022
Student must have valid SSN or ITIN by end of TY21 filing season
Student must have Form 1098-T from Educational institution J-6
Student must provide valid EIN for Educational institution on Form 8863

Constraints are all asked and answered on the 8863 when filing out the Credit in TaxSlayer

What are Qualifying Expenses for the AOC?

From the 4012 J-5

Tuition

Required enrollment fees

Course materials computer, if required

Whether bought from the institution or not

Where do we get Qualifying Expenses?

Form 1098-T has tuition and grant info

Student account from school

Student's recollection receipts not required

American Opportunity Credit (AOC)

How is Education paid for?

Out of Pocket

Savings

Gifts CARES Higher Education Emergency Grants

Credit Card

Student Loans

Scholarships and Grants

Show 4012 J-6

Restricted Use

Can only be used for intended purpose, eg: tuition

Unrestricted Use

Can be used for whatever the student needs the money

Tuition, rent, gas for the car,

Tax Free

When used for qualified education expenses

Taxable

When used for other than qualified education expenses

Taxable to the receiver of the scholarship or grant

Other Funding Sources

Coverdell

529 Plans

IRAs

Saving Bond programs

Employer programs

These funding sources all are available and need special treatment

See 4012 pgs J-2 to J-4 for explanations

Who can claim the AOC?

Show 4012 J-6

- Taxpayers who paid qualified expenses for eligible student, except MFS
- Taxpayers who paid qualified expenses for student to eligible education institution

Eligible student is either the taxpayer, the taxpayer's spouse or their dependent

Note: The importance of dependency

Any Questions to this point??

Let's do the Van Vincent problem from the Workbook homework from Tuesday

The answers to the Vincent problem are correct in the Workbook Instructor Guide. The answers do not include the EIP.

Go to TaxSlayer Practice Lab

Show TaxSlayer Vincent

Van is a student

Van has qualified education expenses

Tuition	\$2900
Books	\$ 200
Computer	<u>\$ 500</u>
Total	\$3600

Van received financial support

Unrestricted grant	\$4000
Emergency Financial Aid grant	<u>\$2500</u>
Total	\$6500

What do we know about these grants?

Unrestricted grant can be used for anything

Emergency Aid grant is tax free and considered a "gift"

Vincent 1

The first part of Vincent 1 is to determine the AOC to make the grant tax free

The Emergency Aid grant is already tax free

The Unrestricted grant is tax free when used for qualified expenses

Qualified expenses	\$3600
Unrestricted grant	<u>\$4000</u>
Taxable grant	\$ 400

There is NO AOC because the grant was used for the qualified expenses

Enter the Vincent return in TaxSlayer

Van must claim the Unrestricted grant unused as taxable income

The taxable \$400 is entered into Van's return as Scholarships and Grants

And is included as wages on the 1040

Show the Vincent 1 Table

The second part of Vincent 1 is to use all Qualified expenses for AOC

The Emergency Aid grant is still tax free

The Unrestricted grant becomes fully taxable, not used for qualified expenses

Qualified expenses	\$3600
Unrestricted grant	<u>\$4000</u>
Taxable grant	\$4000

Enter the AOC entry in TaxSlayer

Show TaxSlayer Vincent 1

Make sure that you have Van as the Student

Qualified expenses \$3600, other entries to make AOC work

Add the \$4000 to the Scholarship and Grant income

Show the Vincent 1 Table

Total refund better

The last part of Vincent 1 is to use Bogart's Education Benefits Calculator

Go to cotaxaide.org

Show Bogart's Calculator

choose the Education Benefits Calculator

Start with the Taxpayer Information tab

Enter Van as the taxpayer

For TY21

Filing Status? HoH

Total dependents claimed? 1 Larry

Dependents claimed for EIC? 1 Larry

Student Information

Student TP, SP, or dependent? TP

Student's age? 25+

Student claimed on other return? No

Degree or credential? Degree

Level of time enrolled? Half-time

All other questions No

Go to the Funding Sources tab

Unrestricted grants and scholarships enter 4000

Other scholarships or grants none

Amount restricted none

Amount you wish to make taxable for larger tax benefit 4000

Use it all, there's no benefit in not

Limit the amount tested? none

Supplemental funding? none

Go to the Expense Information tab

Tuition	enter	2900
Activity fees		none
Books from the institution		none
Books from anywhere	enter	200
Supplies and equipment paid to the institution		none
Supplies and equipment paid to anywhere	enter	500
Living expenses	IMPORTANT ENTRY	enter 20000
All other entries	do not check	none

Go to the Optimizer tab

Wages, salary and tips?	enter	32000
Business income?		none
AGI? Note: Pink box	enter	32000
Skip all boxes to the next Pink box		
Total nonrefundable credits?	Enter	500

Go to the Optimizer button click it

Bogart says use:

\$2399 for Qualified Education expenses for AOC

Add \$1999 to income as Scholarships and Grants

Write these numbers down, we're going to put them in Vincent

So, What is Bogart's Optimizer doing??

Let's look at the Earned Income Credit chart

Show EIC Chart

EIC generally increases about 40% as income increases

and decreases about 20% as income increases

The American Opportunity Credit is a 100% credit for the first \$2000

The refundable portion of AOC is 40% of the total AOC, \$800 for the first \$2000

The second \$2000 is credited at 25%, \$500 for the second \$2000

The refundable portion is 40% or \$200 of the second \$2000

So, the refundable portion of the second is increasing at 10% as the credit increases

Bogart's Optimizer calculates the AGI and AOC where the 20% decrease in the EIC crosses the 10% increase in the refundable AOC

Hence the dollar amount to take as Qualified Education expenses

*And the dollar amount to be added to income as Scholarships and Grants
Optimizes the total refund to the taxpayer*

Before we leave Bogart's calculator

Go to the "Click to clear and reset calculator" button in the upper right corner

Let's go back to the Vincent 1 return in TaxSlayer

[Show TaxSlayer Vincent 1](#)

The Emergency Aid grant is still tax free

The Unrestricted grant can be taxable, not all used for qualified expenses

<i>Qualified expenses</i>	<i>from Bogart</i>	<i>\$1999</i>
<i>Unrestricted grant</i>		<i><u>\$4000</u></i>
<i>Taxable grant</i>	<i>from Bogart</i>	<i>\$2399</i>

Enter the AOC entry in TaxSlayer

Qualified expenses \$1999, other entries to make AOC work

Add the \$2399 to the Scholarship and Grant income

[Show the Vincent 1 Table](#)

Total refund better

Why the odd ball numbers?? 1999 not 2000

*I ran even numbers that \$1 difference in entry made an \$8 difference in refund
It's a tax table thing*

Vincent 2 and Vincent 3 make the dependent Larry the student

You guys need to complete these exercises, I'm not going to now

We know that the parent taxpayer gets the AOC even if the dependent pays for college

Bogart's calculator doesn't show any increase in the refunds because Larry is responsible for the taxable Scholarships and Grants

Show Vincent 2 and Vincent 3 tables

The Workbook asks What about the Kiddie Tax?

Triggered at \$2200 of unearned income

Show 4012 A-2

Also about the possibility of Larry making an IRA contribution to reduce his AGI

American Opportunity Credit is a powerful credit

We should optimize it's use by using the Bogart calculator

The Lifetime Learning Credit

Show 4012 J-2

- *Available to taxpayers who are going to school to acquire or improve job skills*
- *Qualified Expenses up to \$10000*
 - Books and expenses only if paid to the institution*
- *20% credit*
- *Nonrefundable*

Don't see many of these, by golf lessons at North Idaho College don't apply

SUMMARY

Education Credits can reduce the taxpayer's tax AND increase their refund

Bogart's Education Benefits Calculator is a great tool to use to Optimize refunds

Show "Thank You"

Thank you