



# Tax Benefits for Education Part 1

---

Course #33851B

Taxes

2 Credit Hours

Support@PacificCPE.com | (800) 787-5313

**PacificCPE.com**

# TAX BENEFITS FOR EDUCATION PART 1

---

This course covers the tax treatment of educational assistance, including which types are taxable and which are exempt. It explains the eligibility and usage rules for the American Opportunity Credit and Lifetime Learning Credit, as well as the proper tax handling of student loans, including cancellation and repayment assistance. The course provides essential guidance for maximizing education-related tax benefits.

## LEARNING ASSIGNMENTS AND OBJECTIVES

*As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.*

### SUBJECTS

**Introduction**  
**Scholarships, Fellowship Grants, Grants, and Tuition Reductions**  
**American Opportunity Credit**  
**Lifetime Learning Credit**  
**Student Loan Interest Deduction**

Study the course materials

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

### Objectives:

- Recognize the taxability of various types of educational assistance.
- Recognize how and when to use the American opportunity credit.
- Recognize when and how to use the lifetime learning credit.
- Recognize the proper tax treatment for student loans and the cancellations or repayment assistance of such.

## **NOTICE**

**Limit of Liability/Disclaimer of Warranty:** While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties or merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

The End User shall be permitted to use the Licensed Content for internal purposes only and not for resale or distribution. The Licensed Content is provided on an “as is” basis and without any warranties of any kind, express or implied. CCH INCORPORATED AND ITS LICENSORS AND AFFILIATES DISCLAIM ALL WARRANTIES WITH RESPECT TO THE LICENSED CONTENT, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO, WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT, TITLE, QUIET ENJOYMENT AND INFORMATION COMPLETENESS, CURRENCY OR ACCURACY.

End User assumes all responsibilities and obligations with respect to the selection of the Licensed Content to achieve End User’s intended results. End User assumes all responsibilities and obligations with respect to any decision or advice made or given as a result of the use or application of the Licensed Content. CCH and its licensors and affiliates are not engaged in the rendering of legal, accounting, tax or other professional advice or services. If legal, accounting, tax or other expert assistance is required, the services of a competent professional should be sought.

This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

© **Pacific CPE, LP 2025**

Program publication date **1/21/25**

## EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

---

---

# TABLE OF CONTENTS

---

---

<b>Introduction</b>	<b>1</b>
<b>I. What's Important for 2024</b>	<b>2</b>
<b>II. Reminders</b>	<b>2</b>
<b>Chapter 1: Scholarships, Fellowship Grants, Grants, and Tuition Reductions</b>	<b>5</b>
<b>I. Introduction</b>	<b>5</b>
<b>II. Scholarships and Fellowship Grants</b>	<b>5</b>
TAX-FREE SCHOLARSHIPS AND FELLOWSHIP GRANTS	6
TAXABLE SCHOLARSHIPS AND FELLOWSHIP GRANTS	8
REPORTING SCHOLARSHIPS AND FELLOWSHIP GRANTS	9
<b>III. Other Types of Educational Assistance</b>	<b>9</b>
FULLBRIGHT GRANTS	9
PELL GRANTS AND OTHER TITLE IV NEED-BASED EDUCATION GRANTS	9
PAYMENT TO SERVICE ACADEMY CADETS	9
VETERANS' BENEFITS	9
QUALIFIED TUITION REDUCTION	10
<b>Chapter 1: Test Your Knowledge</b>	<b>12</b>
<b>Chapter 1: Solutions and Suggested Responses</b>	<b>13</b>
<b>Chapter 2: American Opportunity Credit</b>	<b>14</b>
<b>I. Introduction</b>	<b>14</b>
<b>II. Can You Claim the Credit</b>	<b>16</b>
WHO CAN CLAIM THE CREDIT	16
WHO CANNOT CLAIM THE CREDIT	20
<b>III. What Expenses Qualify</b>	<b>20</b>
QUALIFIED EDUCATION EXPENSES	21
NO DOUBLE BENEFIT ALLOWED	22
ADJUSTMENTS TO QUALIFIED EDUCATION EXPENSES	23
EXPENSES THAT DO NOT QUALIFY	27
<b>IV. Who Is an Eligible Student</b>	<b>28</b>
<b>V. Who Can Claim a Dependent's Expenses</b>	<b>31</b>
<b>VI. Figuring the Credit</b>	<b>33</b>
EFFECT OF THE AMOUNT OF YOUR INCOME ON THE AMOUNT OF YOUR CREDIT	34
REFUNDABLE PART OF CREDIT	36
<b>VII. Claiming the Credit</b>	<b>37</b>
<b>Chapter 2: Test Your Knowledge</b>	<b>38</b>
<b>Chapter 2: Solutions and Suggested Responses</b>	<b>39</b>

<b>Chapter 3: Lifetime Learning Credit</b>	<b>40</b>
<b>I. Introduction</b>	<b>40</b>
<b>II. Can You Claim the Credit</b>	<b>42</b>
WHO CAN CLAIM THE CREDIT	42
WHO CANNOT CLAIM THE CREDIT	42
<b>III. What Expenses Qualify</b>	<b>43</b>
QUALIFIED EDUCATION EXPENSES	43
NO DOUBLE BENEFIT ALLOWED	44
EXPENSES THAT DO NOT QUALIFY	48
<b>IV. Who Is an Eligible Student</b>	<b>48</b>
<b>V. Who Can Claim a Dependent's Expenses</b>	<b>48</b>
<b>VI. Figuring the Credit</b>	<b>50</b>
EFFECT OF THE AMOUNT OF YOUR INCOME ON THE AMOUNT OF YOUR CREDIT	51
<b>VII. Claiming the Credit</b>	<b>52</b>
<b>Chapter 3: Test Your Knowledge</b>	<b>53</b>
<b>Chapter 3: Solutions and Suggested Responses</b>	<b>54</b>
<b>Chapter 4: Student Loan Interest Deduction</b>	<b>55</b>
<b>I. Introduction</b>	<b>55</b>
<b>II. Student Loan Interest Defined</b>	<b>56</b>
QUALIFIED STUDENT LOAN	56
QUALIFIED EDUCATION EXPENSES	58
DO NOT INCLUDE AS INTEREST	60
WHEN MUST INTEREST BE PAID	60
<b>III. Can You Claim the Deduction</b>	<b>61</b>
NO DOUBLE BENEFIT ALLOWED	61
<b>IV. Figuring the Deduction</b>	<b>61</b>
EFFECT OF THE AMOUNT OF YOUR INCOME ON THE AMOUNT OF YOUR DEDUCTION	61
<b>V. Claiming the Deduction</b>	<b>63</b>
<b>Chapter 4: Test Your Knowledge</b>	<b>65</b>
<b>Chapter 4: Solutions and Suggested Responses</b>	<b>66</b>
<b>Glossary</b>	<b>67</b>
<b>Index</b>	<b>68</b>
<b>Final Exam Copy</b>	<b>69</b>

---

# INTRODUCTION

---

## Note



This course covers information regarding tax benefits for education as appropriate for filing tax returns for the year ending December 31, 2024.

The goal of this course is to teach you all the different education-related tax benefits that are available to you and your clients. Throughout this course, we use the term “you” which can be substituted with “your client.”

The course starts out with new changes for 2024, and then goes into detail of each different option you have. The course includes an Appendix which shows in graphic form how the different options compare to each other.

This course explains tax benefits that may be available to you if you are saving for or paying higher education costs for yourself or another student who is a member of your immediate family.

Chapter 1 covers the tax treatment of various types of educational assistance, including scholarships, fellowships, grants, and tuition reductions.

Two tax credits for which you may be eligible are explained in chapters 2 and 3. These benefits, which reduce the amount of income tax you may have to pay, are:

- The American opportunity credit, and
- The lifetime learning credit.

Additional benefits are explained in chapters 4 through 11. With these benefits, you may be able to:

- Deduct student loan interest,
- Receive tax-free treatment of a canceled student loan,
- Receive tax-free student loan repayment assistance,
- Establish and contribute to a Coverdell education savings account (ESA), which features tax-free earnings,
- Participate in a qualified tuition program (QTP), which features tax-free earnings,
- Take early distributions from any type of individual retirement arrangement (IRA) for education costs without paying the 10% additional tax on early distributions,

- Cash in savings bonds for education costs without having to pay tax on the interest,
- Receive tax-free educational benefits from your employer, and
- Claim a business deduction for work-related education.

## Note



You generally cannot claim more than one of the benefits described in the list above for the same qualifying education expense.

## I. WHAT'S IMPORTANT FOR 2024

**Student loan interest deduction.** For 2024, the amount of your student loan interest deduction is gradually reduced (phased out) if your MAGI is between \$75,000 and \$90,000 (\$155,000 and \$185,000 if you file a joint return). You cannot claim the deduction if your MAGI is \$90,000 or more (\$188,000 if you file a joint return).

See chapter 4, *Student Loan Interest Deduction*, for more information.

**Education savings bond program.** For 2024, the amount of your education savings bond interest exclusion is gradually reduced (phased out) if your MAGI is between \$96,800 and \$111,800 (\$145,200 and \$175,200 if you file a joint return). You cannot exclude any of the interest if your MAGI is \$111,800 or more (\$175,200 or more if you file a joint return). See chapter 9 for more information.

**Business deduction for work-related education.** Generally, if you claim a business deduction for work-related education and you drive your car to and from school, the amount you can deduct for miles driven from January 1, 2024, through December 31, 2024, is 67 cents a mile.

## II. REMINDERS

**Form 1098-T, Tuition Statement.** When figuring an education credit or tuition and fees deduction, use only the amounts you paid and are deemed to have paid during the tax year for qualified education expenses. In most cases, the student should receive Form 1098-T from the eligible educational institution by January 31, 2025. However, the amounts on Form 1098-T might be different than the amount you actually paid and are deemed to have paid. In addition, the 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 the student was enrolled at least half-time or was 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.



**Form 1098-T requirement.** To be eligible to claim the American opportunity credit or the lifetime learning credit, the law requires a taxpayer (or a dependent) to have received Form 1098-T, Tuition Statement, from an eligible educational institution, whether domestic or foreign.

However, a taxpayer may claim a credit if the student does not receive a Form 1098-T because the student's educational institution isn't required to send a Form 1098-T to the student under existing rules (for example, if the student is a qualified nonresident alien, has qualified education expenses paid entirely with scholarships, has qualified education expenses paid under a formal billing arrangement, or is enrolled in courses for which no academic credit is awarded). If a student's educational institution is not required to provide a Form 1098-T to the student, a taxpayer may claim a credit without a Form 1098-T if the taxpayer otherwise qualifies, can demonstrate that the taxpayer (or a dependent) was enrolled at an eligible educational institution, and can substantiate the payment of qualified tuition and related expenses.

**Educational institution's EIN required.** To claim the American opportunity credit, you must provide the educational institution's employer identification number (EIN) on your Form 8863. You should be able to obtain this information from Form 1098-T or the educational institution. See chapter 2.

**Form 8862 may be required.** If your American opportunity credit was denied or reduced for any reason other than a math or clerical error for any tax year beginning after 2015, you must attach a completed Form 8862, Information To Claim Certain Refundable Credits After Disallowance, to your tax return for the next year for which you claim the credit. See chapter 2.

**Ban on claiming the American opportunity credit.** If you claim the American opportunity credit even though you're not eligible, you may be banned from claiming the credit for 2 or 10 years depending on your conduct. See chapter 2.

**Taxpayer identification number (TIN) needed by due date of return.** If you have not been issued a TIN by the due date of your 2024 return (including extensions), you cannot claim the American opportunity credit on either your original or an amended 2024 return. Also, the American opportunity credit is not allowed on either your original or an amended 2024 return for a student who has not been issued a TIN by the due date of your return (including extensions). See chapter 2.

**Higher education emergency grants.** Emergency financial aid grants under the following are not included in your gross income.

- The CARES Act.
- The Coronavirus Response and Relief Supplemental Appropriations Act, 2021.
- The American Rescue Plan Act of 2021.

Also, for purposes of the American opportunity tax credit (see chapter 2) and lifetime learning credit (see chapter 3), a student does not reduce an amount of qualified tuition and related expenses by the amount of an emergency financial aid grant.