PacificCPE

COURSE
31055C

Individual Income Tax: Adjustments Part 2

Above-the-line deductions can significantly reduce a client's adjusted gross income, making them especially valuable in tax planning. This course covers educator expense deductions, student loan interest, and tuition and fees deductions. It also addresses other adjustments to income, including business-related travel, meals and entertainment, gifts, and transportation expenses, along with recordkeeping requirements and reporting guidance. A useful refresher for practitioners working with educators, students, and self-employed individuals.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

Start Course ↓ | Final Exam Copy ↓

LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Identify education-related adjustments that can be made to income.
- Identify what business-related expenses associated with travel, transportation, and gifts are deductible.

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Chapter 1: EDUCATION-RELATED ADJUSTMENTS

Chapter Objective

After completing this chapter, you should be able to:

- Identify education-related adjustments that can be made to income.

I. EDUCATOR EXPENSES

If you were an eligible educator in 2025, you can deduct up to $300 of qualified expenses you paid in 2025 as an adjustment to gross income on Schedule 1 (Form 1040), line 11.

If you and your spouse are filing jointly and both of you were eligible educators, the maximum deduction is $600. However, neither spouse can deduct more than $300 of his or her qualified expenses.

Note

For 2026, based on the passage of the OBBBA, in addition to the above-the-line deduction, any additional qualifying unreimbursed educator expenses (greater than $300) can be claimed as a miscellaneous itemized deduction on Schedule A.

Eligible educator. An eligible educator is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

Qualified expenses. Qualified expenses include ordinary and necessary expenses paid in connection with books, supplies, equipment (including computer equipment, software, and services), and other materials used in the classroom. An ordinary expense is one that is common and accepted in your educational field. A necessary expense is one that is helpful and appropriate for your profession as an educator. An expense does not have to be required to be considered necessary.

Qualified expenses also include those expenses you incur while participating in professional development courses related to the curriculum in which you provide instruction. It also includes those expenses related to those students for whom you provide that instruction.

Qualified expenses do not include expenses for home schooling or for nonathletic supplies for courses in health or physical education. Educator expenses also include the cost of personal protective equipment, disinfectant, and other supplies used for the prevention of the spread of COVID-19 in the classroom. You must reduce your qualified expenses by the following amounts.

- Excludable U.S. series EE and I savings bond interest from Form 8815.
- Nontaxable qualified tuition program earnings.
- Nontaxable earnings from a Coverdell education savings account (ESA).
- Any reimbursements you received for these expenses that were not reported to you in box 1 of your Form W-2.

II. STUDENT LOAN INTEREST DEDUCTION

Generally, personal interest you pay, other than certain mortgage interest, is not deductible on your tax return. However, if your modified adjusted gross income (MAGI) is less than $100,000 ($200,000 if filing a joint return) there is a special deduction allowed for paying interest on a student loan (also known as an education loan) used for higher education. For most taxpayers, MAGI is the adjusted gross income as figured on their federal income tax return before subtracting any deduction for student loan interest. This deduction can reduce the amount of your income subject to tax by up to $2,500. *Table 19-1* summarizes the features of the student loan interest deduction.

TABLE 19-1. STUDENT LOAN INTEREST DEDUCTION AT A GLANCE

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

Feature	Description
Maximum benefit	You can reduce your income subject to tax by up to $2,500.
Loan qualifications	Your student loan: • Must have been taken out solely to pay qualified education expenses, and • Cannot be from a related person or made under a qualified employer plan.
Student qualifications	The student must be: • You, your spouse, or your dependent, and • Enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential at an eligible educational institution.
Limit on modified adjusted gross income (MAGI)	$200,000 if married filing a joint return; $100,000 if single, head of household, or qualifying surviving spouse.

STUDENT LOAN INTEREST DEFINED

Student loan interest is interest you paid during the year on a qualified student loan. It includes both required and voluntary interest payments.

Qualified Student Loan

This is a loan you took out solely to pay qualified education expenses (defined later) that were:

- For you, your spouse, or a person who was your dependent (defined in Chapter 3 of course 31051N) when you took out the loan,
- Paid or incurred within a reasonable period of time before or after you took out the loan, and
- For education provided during an academic period when the student is an eligible student.

Loans from the following sources are not qualified student loans:

- A related person.
- A qualified employer plan.

Reasonable period of time. Qualified education expenses are treated as paid or incurred within a reasonable period of time before or after you take out the loan if they are paid with the proceeds of student loans that are part of a federal postsecondary education loan program.

Even if not paid with the proceeds of that type of loan, the expenses are treated as paid or incurred within a reasonable period of time if both of the following requirements are met.

1. The expenses relate to a specific academic period, and
2. The loan proceeds are disbursed within a period that begins 90 days before the start of that academic period and ends 90 days after the end of that academic period.

If neither of the above situations applies, the reasonable period of time usually is determined based on all the relevant facts and circumstances.

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. If 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.

Eligible student. An eligible student is a student who was

enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential. **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 Department of Education under the Higher Education Act of 1965.

Qualified employer plan. You cannot deduct interest on a loan made under a qualified employer plan or under a contract purchased under such a plan.

Qualified Education Expenses

Generally, for purposes of the student loan interest deduction, these expenses are the total costs of attending an eligible educational institution, including graduate school. They include amounts paid for the following items.

- Tuition and fees.
- Room and board.
- Books, supplies, and equipment.
- Other necessary expenses (such as transportation).

The cost of room and board qualified only to the extent that it is not more than:

- 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.
- If greater, the actual amount charged if the student is residing in housing owned or operated by the eligible educational institution.

Include as Interest

In addition to simple interest on the loan, if all other requirements are met, the items discussed below can be student loan interest.

Loan origination fee. In general, this is a one-time fee charged by the lender when a loan is made. To be deductible as interest, a loan origination fee must be for the use of money rather than for property or services (such as commitment fees or processing costs) provided by the lender. A loan origination fee treated as interest accrues over the life of the loan.

Capitalized interest. This is unpaid interest on a student loan that is added by the lender to the outstanding principal balance of the loan.

Interest on revolving lines of credit. This interest, which includes interest on credit card debt, is student loan interest if the borrower uses the line of credit (credit card) only to pay qualified education expenses. See Qualified Education Expenses**, earlier.

Interest on refinanced and consolidated student loans. This includes interest on a loan used solely to refinance a qualified student loan of the same borrower. It also includes a single consolidation loan used solely to refinance two or more qualified student loans of the same borrower.

Caution!

If you refinance a qualified student loan for more than your original loan and you use the additional amount for any purpose other than qualified education expenses, you cannot deduct any interest paid on the refinanced loan.

Do Not Include as Interest

You cannot claim a student loan interest deduction for any of the following items:

- Interest you paid on a loan if, under the terms of the loan, you are not legally obligated to make interest payments.
- Loan origination fees that are payments for property or services provided by the lender, such as commitment fees or processing costs.
- Interest you paid on a loan to the extent payments were made through your participation in the National Health Service Corps Loan Repayment Program (the "NHSC Loan Repayment Program") or certain other loan repayment assistance programs.

HOW MUCH CAN YOU DEDUCT

Your student loan interest deduction for 2025 is generally the smaller of:

- $2,500, or
- The interest you paid in 2025.

However, the amount determined above is phased out (gradually reduced) if your MAGI is between $85,000 and $100,000 ($170,000 and $200,000 if you file a joint return). You cannot take a student loan interest deduction if your MAGI is $100,000 or more ($200,000 or more if you file a joint return).

III. TUITION AND FEES DEDUCTION

Note

The tuition and fees deduction was repealed by the Further Consolidated Appropriations Act, 2021. However, there are other educational tax-savers available in 2025, including the American opportunity credit and the lifetime learning credit (discussed in Chapter 6 of course 31059N).