PacificCPE

COURSE
33852D

Education: Life Time Learning Credits, Loans, and Savings Accounts

Four essential education tax provisions are covered here: the Lifetime Learning Credit, the student loan interest deduction, student loan cancellation and repayment assistance exclusions, and Coverdell Education Savings Accounts. For each, you'll work through eligibility rules, qualifying expenses, and calculation methods — plus the contribution, rollover, and distribution rules governing ESAs. If you advise clients navigating higher education costs or managing student loan obligations, this course delivers practical, immediately applicable guidance.

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

- 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.
- Recognize the proper tax treatment for student loans and the cancellations or repayment assistance of such.
- Recognize how a Coverdell ESA can be used as a tax benefit for education.

Copyright Notice

© 2026 Pacific CPE, LP. All rights reserved.

The materials in this course — including the text, illustrations, exhibits, examples, exam questions, and review questions — are the copyrighted property of Pacific CPE, LP. No portion of this course may be reproduced, stored in a retrieval system, distributed, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise) without the prior written permission of Pacific CPE, LP, except for the personal, non-commercial use of the registered learner.

Pacific CPE, LP grants the registered learner a single-seat, non-transferable license to access this course for the purpose of completing the associated continuing professional education credit. Account credentials may not be shared.

This course is provided "as is" for educational purposes. While Pacific CPE, LP makes a reasonable effort to ensure the content is current and accurate, the materials should not be relied upon as a substitute for professional advice. Pacific CPE, LP disclaims all liability for any error, omission, or loss arising from the use of, or reliance on, the course content.

Publication Date: August 2026

TABLE OF CONTENTS

CHAPTER 01

Lifetime Learning Credit **5**

1.01 I. Introduction 5

1.02 II. Can You Claim The Credit? 7

1.03 III. What Expenses Qualify 8

1.04 IV. Who Is An Eligible Student 14

1.05 V. Who Can Claim A Dependent'S Expenses 14

1.06 VI. Figuring The Credit 16

1.07 VII. Claiming The Credit 19

Test Your Knowledge 20

CHAPTER 02

Student Loan Interest Deduction **24**

2.01 I. Introduction 24

2.02 II. Student Loan Interest Defined 25

2.03 III. Can You Claim The Deduction 29

2.04 IV. Figuring The Deduction 30

2.05 V. Claiming The Deduction 32

Test Your Knowledge 34

CHAPTER 03

Student Loan Cancellations And Repayment Assistance **36**

3.01 I. Introduction 36

3.02 II. Loan For Postsecondary Educational Expenses 36
3.03 III. Private Education Loan 37
3.04 IV. Loan From An Educational Organization Described In Section 170(B)(1)(A)(II) 37
3.05 V. Refinanced Loan 38
3.06 VI. Student Loan Repayment Assistance 38
Test Your Knowledge 40

CHAPTER 04

Coverdell Education Savings Account (Esa) 42

4.01 I. Introduction 42
4.02 II. What Is A Coverdell Esa 43
4.03 III. Contributions 46
4.04 IV. Rollovers And Other Transfers 55
4.05 V. Distributions 57
Test Your Knowledge 68

Final Exam Copy 75
Index .....

Chapter 1: LIFETIME LEARNING CREDIT

Chapter Objective

After completing this chapter, you should be able to:

- Recognize when and how to use the lifetime learning credit.

I. INTRODUCTION

For 2026, there are two 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 and the lifetime learning credit. The American opportunity credit was discussed in Chapter 2 of course 33851E.

This chapter explains:

- Who can claim the lifetime learning 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 lifetime learning credit? For the tax year, you may be able to claim a lifetime learning credit of up to $2,000 for qualified education expenses paid for all eligible students. There is no limit on the number of years the lifetime learning credit can be claimed for each 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 lifetime learning 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 lifetime learning credit may be limited by the amount of your income and the amount of your tax.

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 lifetime learning credit for a child on your 2026 tax return, you cannot, for that same child, also claim the American opportunity credit

for 2026. If you are eligible to claim the lifetime learning credit and you are also eligible to claim the American opportunity credit for the same student in the same year, you can choose to claim either credit, but not both.

Tip

If you claim the American opportunity credit for any student, you can choose between using that student's adjusted qualified education expenses for the American opportunity credit or the lifetime learning credit. If you have the choice, the American opportunity credit will always be greater than the lifetime learning credit.

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

Differences between the American opportunity and lifetime learning credits. There are several differences between these two credits. For example, you can claim the American opportunity credit for the same student for no more than 4 tax years. However, 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 these credits are shown in the Appendix near the end of this course.

Overview of the lifetime learning credit for 2026. See Table 3-1 for the basics of the lifetime learning credit. The details are discussed in this chapter.

TABLE 3-1. OVERVIEW OF THE LIFETIME LEARNING CREDIT FOR 2026

Maximum credit	Up to $2,000 credit per **return**
Limit on modified adjusted gross income (MAGI)	$180,000 if married filing jointly; $90,000 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 for all years of postsecondary education and for courses to acquire or improve job skills
Number of tax years credit available	Available for an unlimited number of tax years
Type of degree required	Student does not need to be pursuing a degree or other recognized education credential
Number of courses	Available for one or more courses
Felony drug conviction	Felony drug convictions do not make the student ineligible
Qualified expenses	Tuition and fees required for enrollment or attendance (including amounts required to be paid to the institution for course-related books, supplies, and equipment)
Payments for academic periods	Payments made in 2026 for academic periods beginning in 2025 and in the first 3 months of 2027

II. CAN YOU CLAIM THE CREDIT?

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

WHO CAN CLAIM THE CREDIT

Generally, you can claim the lifetime learning credit 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 either yourself, your spouse, or a dependent you claim on your tax return.

> *Note*
>
> Qualified education expenses paid by a dependent you claim on your tax return, or by a third party for that dependent, are considered paid by you.

WHO CANNOT CLAIM THE CREDIT

You cannot claim the lifetime learning credit for 2026 if any of the following apply.

- Your filing status is married filing separately.
- You are listed as a dependent on another person's tax return (such as your parents'). See *Who Can Claim a Dependent's Expenses*, later.
- Your modified adjusted gross income is $90,000 or more ($180,000 or more if filing married filing jointly). Modified adjusted gross income 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 2026 and the nonresident alien did not elect to be treated as a resident alien for tax purposes.
- You claim the American opportunity credit or a tuition and fees deduction for the same student in 2026.

III. WHAT EXPENSES QUALIFY

The lifetime learning credit is based on qualified education expenses you pay for yourself, your spouse, or a dependent you claim on your tax return. Generally, the credit is allowed for qualified education expenses paid in 2026 for an academic period beginning in 2026 or in the first 3 months of 2027.

For example, if you paid $1,500 in December 2026 for qualified tuition for the spring 2027 semester beginning in January 2027, you may be able to use that $1,500 in figuring your 2026 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.

Paid with borrowed funds. You can claim a lifetime learning credit for qualified education expenses paid with the proceeds of a loan. You use the expenses to figure the lifetime learning 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 lifetime learning credit for qualified education expenses not refunded when a student withdraws.

QUALIFIED EDUCATION EXPENSES

For purposes of the lifetime learning credit, qualified education expenses are tuition and certain related expenses required for enrollment in a course at an eligible educational institution. The course must be either part of a postsecondary degree program or taken by the student to acquire or improve job skills.

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.

An eligible educational institution also includes certain educational institutions located outside the United States that are eligible to participate in a student program administered by the U.S. Department of Education.

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

Prepaid expenses. Qualified education expenses paid in 2026 for an academic period that begins in the first three months of 2027 can be used in figuring an education credit for 2026 only. See *Academic period*, earlier. For example, you pay $2,000 in December 2026 for qualified tuition for the 2027 winter quarter that begins in January 2027, you can use that $2,000 in figuring an education credit for 2026 only (if you meet all the other requirements).

Caution!

You cannot use any amount you paid in 2025 or 2027 to figure the qualified education expenses you use to figure your 2026 education credit(s).

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 lifetime learning credit based on those same expenses.

- Claim a lifetime learning credit for any student and use any of that student's expenses in figuring your American opportunity credit.
- Claim a lifetime learning credit based on the same expenses used to figure the tax-free portion of a distribution from a Coverdell ESA or QTP. See *Coordination With American Opportunity and Lifetime Learning Credits* in Chapter 1 of course 33853E (Coverdell ESA) and Chapter 2 of course 33853E (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

For each student, reduce the qualified education expenses paid by or on behalf of that student under the following rules. The result is the amount of adjusted qualified education expenses for each student.

Tax-free educational assistance. For tax-free educational assistance received in 2026, reduce the qualified educational expenses for each academic period by the amount of tax-free educational assistance allocable to that academic period.

Some tax-free educational assistance received after 2026 may be treated as a refund of qualified education expenses paid in 2026. This tax-free educational assistance is any tax-free educational assistance received by you or anyone else after 2026 for qualified education expenses paid on behalf of a student in 2026 (or attributable to enrollment at an eligible educational institution during 2026).

If this tax-free educational assistance is received after 2026 but before you file your 2026 income tax return, see *Refunds received after 2026 but before your income tax return is filed*, later. If this tax- free educational assistance is received after 2026 and after you file your 2026 income tax return, see *Refunds received after 2026 and after your income tax return is filed*, later.

Tax-free educational assistance includes:

- The tax-free part of scholarships and fellowship grants (see Chapter 1 of course 33851E),
- The tax-free part of Pell grants (see Chapter 1 of course 33851E),
- Employer-provided educational assistance (see Chapter 4 of course 33853E),
- Veterans' educational assistance (see Chapter 1 of course 33851E); and
- Any other nontaxable (tax-free) payments (other than gifts or inheritances) received as educational assistance.

Generally, any scholarship or fellowship grant is treated as tax free. However, a scholarship or fellowship grant is not treated as tax free to the extent the student includes it in gross income (if the