



Taxland Newsletter
2024

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AUGUST ISSUE

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UPCOMING DEADLINES:

3rd QTR ESTIMATED TAX PAYMENTS DUE: 09-16-24

2023 Tax Deadline for those on Extension: 10-15-24

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Explaining Education Credits:

American Opportunity Tax Credit

As defined by the IRS “The American opportunity tax credit (AOTC) is a credit for qualified education expenses paid for an eligible student for the first four years of higher education. You can get a maximum annual credit of \$2,500 per eligible student. If the credit brings the amount of tax you owe to zero, you can have 40 percent of any remaining amount of the credit (up to \$1,000) refunded to you.”

The amount of the credit is 100 percent of the first \$2,000 of qualified education expenses you paid for each eligible student and 25 percent of the next \$2,000 of qualified education expenses you paid for that student.

To be eligible for AOTC, the student must:

- Be pursuing a degree or other recognized education credential
- Be enrolled at least half time for at least one academic period* beginning in the tax year
- Not have finished the first four years of higher education at the beginning of the tax year
- Not have claimed the AOTC or the former Hope credit for more than four tax years
- Not have a felony drug conviction at the end of the tax year

Lifetime Learning Credit

As defined by the IRS “The lifetime learning credit (LLC) is for qualified tuition and related expenses paid for eligible students enrolled in an eligible educational institution. This credit can help pay for undergraduate, graduate and professional degree courses – including courses to acquire or improve job skills. There is no limit on the number of years you can claim the credit. It is worth up to \$2,000 per tax return.”

The requirements for claiming the Lifetime Learning Credit are as follows:

- You, your dependent or a third party pay qualified education expenses for higher education.
- You, your dependent or a third party pay the education expenses for an eligible student enrolled at an eligible educational institution.
- The eligible student is yourself, your spouse or a dependent you listed on your tax return.

To be eligible for the Lifetime Learning Credit, the student must:

- Be enrolled or taking courses at an eligible educational institution.
- Be taking a higher education course or courses to get a degree or other recognized education credential or to get/improve job skills.
- Be enrolled for at least one academic period beginning in the tax year.

To be eligible to claim the AOTC or the lifetime learning credit (LLC), 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. Generally, students receive a Form 1098-T Tuition Statement, from their school by January 31.

You cannot take both the AOTC and the LLC, at Taxland we assess which option the student qualifies for and what will be most beneficial to the taxpayer. Additionally both of these credits have income limits. If your income is past a certain point the credit is reduced. For both the AOTC and LLC you cannot claim the credit at all if your modified adjusted gross income is \$90,000 or more (\$180,000 or more if you file a joining return) for the 2024 tax year.

Additionally we recommend keeping track of any additional education expenses for 2024 that include out of pocket purchases of books, supplies, and equipment.

Adoption:

The adoption credit can be taken on up to \$16,810 of qualified expenses in 2024. The full credit is available for a special-needs adoption even if it costs less. The credit phases out for filers with modified adjusted gross incomes over \$252,150 and ends at \$292,150. The credit is nonrefundable, which means it's limited to your tax liability for the year. However, any credit in excess of your tax liability may be carried forward for **up to five years**. Can you claim an adoption tax credit before finalization? Yes, if it is a US adoption and you had qualified adoption expenses. It is treated as a non-finalized adoption, and you must wait one year after you incur the expenses. So, if you had expenses for an adoption in 2023 but the adoption has failed, you claim them with your 2024 taxes, typically filed in early 2025.

IF YOU ARE INTERESTED IN LEARNING MORE, CONTACT OUR OFFICE TO SCHEDULE A TELEPHONE CALL OR MEETING. WE ARE HERE TO HELP YOU.

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