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Taxation of Common Higher Education Fringe Benefits

Part II

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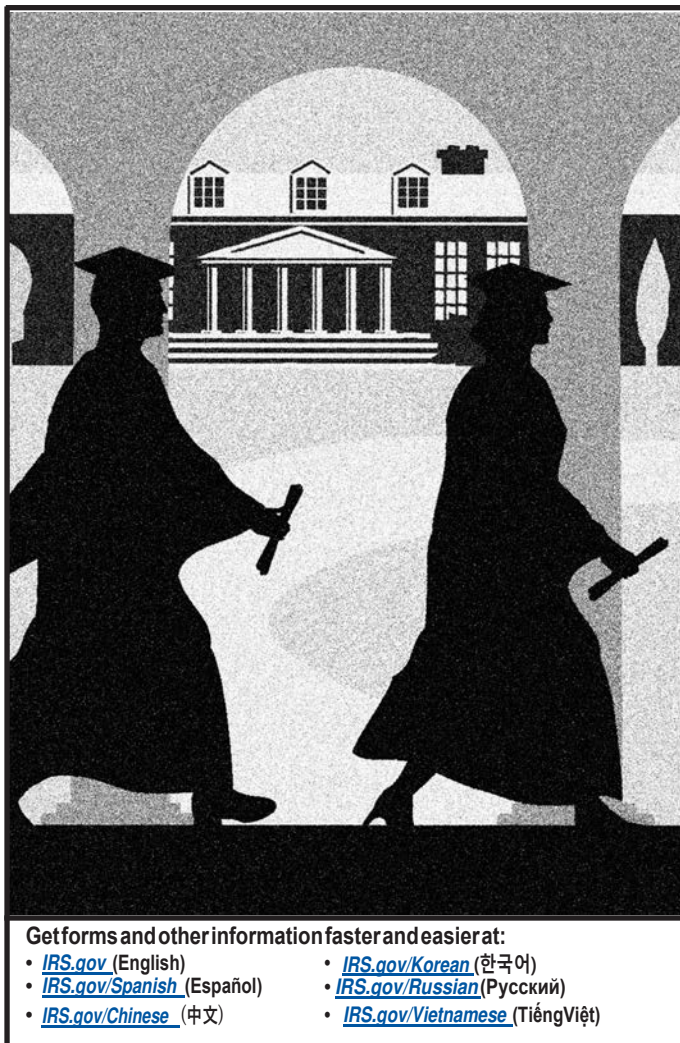
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Tax Benefits for Education

For use in preparing

2015 Returns



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Future Developments

For the latest information about developments related to Pub. 970, such as legislation enacted after it was published, go to www.irs.gov/pub970.

What's New for 2015

Losses on QTP investments. Aggregation rules discussed in chapter 8 (and referred to in chapter 7) require a loss from one QTP account to reduce distributed earnings from another QTP account when distributions from both occur during the same year. For distributions after 2014, these distribution aggregation requirements have been eliminated. Because this change was retroactive, additional guidance may be provided. For the latest information, go to www.irs.gov/pub970.

Achieving a Better Life Experience (ABLE) account. This is a new type of savings account for individuals with

disabilities and their families. For 2015, you can contribute up to \$14,000. Distributions are tax free if used to pay the beneficiary's qualified disability expenses, which may include education expenses. For more information, see Pub. 907, Tax Highlights for Persons with Disabilities.

American opportunity credit. If you didn't have an SSN (or ITIN) by the due date of your 2015 return (including extensions), you can't claim the American opportunity credit on either your original or an amended 2015 return, even if you later get an SSN (or ITIN). Also, you can't claim this credit on your original or an amended 2015 return for a student who didn't have an SSN, ATIN, or ITIN by the due date of your return (including extensions), even if the student later gets one of those numbers.

Lifetime learning credit. For 2015, the amount of your lifetime learning credit is gradually reduced (phased out) if your modified adjusted gross income (MAGI) is between \$55,000 and \$65,000 (\$110,000 and \$130,000 if you file a joint return). You can't claim a credit if your MAGI is \$65,000 or more (\$130,000 or more if you file a joint return). For more information, see [chapter 3](#). The American opportunity credit MAGI limits are unchanged (see [chapter 2](#)).

Student loan interest deduction. For 2015, the amount of your student loan interest deduction is gradually reduced (phased out) if your MAGI is between \$65,000 and \$80,000 (\$130,000 and \$160,000 if you file a joint return). You can't claim the deduction if your MAGI is \$80,000 or more (\$160,000 if you file a joint return). See [chapter 4](#) for more information.

Coverdell ESA rollovers. You can make only one rollover from a Coverdell ESA to another Coverdell ESA in any 12-month period regardless of the number of Coverdell ESAs you own. However, you can make unlimited transfers from one Coverdell ESA trustee directly to another Coverdell ESA trustee because such transfers aren't considered to be distributions or rollovers. The limit of one rollover during any 12-month period doesn't apply to the rollover of a military death gratuity or Servicemembers' Group Life Insurance (SGLI) payment. See [chapter 7](#) for more information.

Coverdell ESA qualified higher education expenses. After 2014, qualified higher education expenses include expenses paid or incurred for the purchase of computer or peripheral equipment, computer software, or Internet access and related services to be used primarily by the beneficiary while enrolled at an eligible postsecondary school.

See [chapter 7](#) for more information.

QTP qualified education expenses. After 2014, qualified education expenses include expenses paid or incurred for the purchase of computer or peripheral equipment, computer software, or Internet access and related services to be used primarily by the beneficiary while enrolled at an eligible educational institution. See [chapter 8](#) for more information.

Recontribution of refunded education expenses to a QTP. If a student receives a refund after December 31, 2014, of qualified education expenses that were treated as paid by a qualified tuition program (QTP) distribution, the student can recontribute these amounts into a QTP for

which they are the beneficiary within 60 days after the date of the refund to avoid the need to figure the taxable part of the QTP distribution. For refunds received after December 31, 2014, and before December 18, 2015, a transition rule allows the student to recontribute these amounts by February 16, 2016. See [chapter 8](#) for more information.

Business deduction for work-related education. For 2015, if you drive your car to and from school and qualify to deduct transportation expenses, the amount you can deduct for miles driven from January 1, 2015, through December 31, 2015, is 57.5 cents a mile. See [chapter 12](#) for more information.

What's New for 2016

Form 1098-T requirement. For 2016, the American opportunity credit, lifetime learning credit, and tuition and fees deduction will not be allowed unless the student receives a Form 1098-T from an eligible educational institution.

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 February 1, 2016 (January 31 is a Sunday). An institution may choose to report either payments received during calendar year 2015 (box 1), or amounts billed during the calendar year 2015 (box 2), for qualified education expenses. However, the amounts on Form 1098-T, boxes 1 and 2, 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.

Coordination with Pell grants and other scholarships or fellowship grants. It may benefit you to choose to include otherwise tax-free scholarships or fellowship grants in income. This may increase your education credit and lower your total tax or increase your refund. See *Coordination with Pell grants and other scholarships or fellowship grants* throughout this publication.

Hope scholarship credit. For 2015, the Hope scholarship credit isn't available. However, you may be able to claim an American opportunity or lifetime learning credit. See [chapter 2](#) and [chapter 3](#) for more information.

Estimated tax payments. If you have taxable income from any of your education benefits and the payer doesn't withhold enough income tax, you may need to make estimated tax payments. For more information, see Pub. 505, Tax Withholding and Estimated Tax.

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

This publication explains tax benefits that may be available to you if you are saving for or paying education costs for yourself or, in many cases, another student who is a member of your immediate family. Most benefits apply only to higher education.

What is in this publication. [Chapter 1](#) explains the tax treatment of various types of educational assistance, including scholarships, fellowship grants, and tuition reductions.

Two tax credits for which you may be eligible are explained in [chapter 2](#) and [chapter 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.

Ten other types of benefits are explained in chapters 4 through 12. These benefits, which reduce the amount of income tax you may have to pay, are:

- Deduct student loan interest;
- Receive tax-free treatment of a canceled student loan;
- Deduct tuition and fees for education;
- 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.

Also available as part of the eCourse

[2016 Higher Education Taxation eConference](#)

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