

Thrivent
Eric Werlinger, ChFC®
Financial Advisor
99 Lake Drive E, Suite 100
Chanhassen, MN 55317
612-324-2287
320-864-2022
eric.werlinger@thrivent.com
https://connect.thrivent.com/eric-werlinger/

Education Tax Credits and Deductions



Tax credit vs. tax deduction

A tax credit is more valuable than a tax deduction of the same amount. Why? A tax credit reduces any taxes owed on a dollar-for-dollar basis, whereas a tax deduction simply reduces the total income on which your taxes are based.

For parents and students trying to manage college bills and student loan payments, the federal government offers education-related tax benefits. The requirements for each are different, so here's what you need to know.

American Opportunity credit

The American Opportunity credit (formerly the Hope credit) is a tax credit available for the first four years of a student's undergraduate education, provided the student is attending school at least half-time in a program leading to a degree or certificate. The credit is worth up to $2,500 in 2023 (it's calculated as 100% of the first $2,000 of qualified expenses plus 25% of the next $2,000 of expenses). The credit must be taken for the tax year that the expenses are paid, and parents must claim their child as a dependent on their tax return to take the credit.

To be eligible for the credit, your income must fall below certain limits. In 2023, a full credit is available to single filers with a modified adjusted gross income (MAGI) below $80,000 and joint filers with a MAGI below $160,000. A partial credit is available to single filers with a MAGI between $80,000 and $90,000 and joint filers with a MAGI between $160,000 and $180,000.

One benefit of the American Opportunity credit is that it's calculated per student, not per tax return. So parents with two (or more) qualifying children in a given year can claim a separate credit for each child (assuming income limits are met).

The mechanics of claiming the credit are relatively easy. If you paid tuition and related expenses to an eligible educational institution during the year, the college generally must send you a Form 1098-T by February 1 of the following year. You then file Form 8863 with your federal tax return to claim the credit.

Lifetime Learning credit

The Lifetime Learning credit is another education tax credit, but it has a broader reach than the American Opportunity credit. As the name implies, the Lifetime Learning credit is available for college or graduate courses taken throughout your lifetime (the student can be you, your spouse, or your dependents), even if those courses are taken on a less than half-time basis and don't lead to a formal degree. This credit can't be taken in the same year as the American Opportunity credit on behalf of the same student.

The Lifetime Learning credit is worth up to $2,000 in 2023 (it's calculated as 20% of the first $10,000 of qualified expenses). The Lifetime Learning credit must be taken for the same year that expenses are paid, and you must file Form 8863 with your federal tax return to claim the credit. In 2023, a full credit is available to single filers with a modified adjusted gross income (MAGI) below $80,000 and joint filers with a MAGI below $160,000. A partial credit is available to single filers with a MAGI between $80,000 and $90,000 and joint filers with a MAGI between $160,000 and $180,000.

Unlike the American Opportunity credit, the Lifetime Learning credit is limited to $2,000 per tax return per year, even if more than one person in your household qualifies independently in a given year.

If you have more than one family member attending college or taking courses at the same time, you'll need to decide which credit to take.

Example: *Joe and Ann have a college freshman and sophomore, Mary and Ben, who are attending school full-time. In addition, Joe is enrolled at a local community college taking two graduate courses related to his job. Mary and Ben each qualify for the American Opportunity credit. Plus, Mary, Ben, and Joe each qualify for the Lifetime Learning credit. Because the American Opportunity credit isn't limited to one per tax return, Joe and Ann should claim this credit for both Mary and Ben, and then claim a Lifetime Learning credit for Joe. Joe and Ann can claim both the American Opportunity credit and the Lifetime Learning credit in the same year because each credit is taken on behalf of a different qualified student.*



Student loan interest deduction

The student loan interest deduction allows borrowers to deduct up to $2,500 worth of interest paid on qualified student loans. Generally, federal student loans, private bank loans, college loans, and state loans are eligible. However, the debt must have been incurred while the student was attending school on at least a half-time basis in a program leading to a degree, certificate, or other recognized educational credential. So loans obtained to take courses that do not lead to a degree or other educational credential are not eligible for this deduction.

Your ability to take the student loan interest deduction depends on your income. For 2023, to take the full $2,500 deduction (assuming that much interest is paid during the year) single filers must have a MAGI of $70,000 or less and joint filers $145,000 or less. A partial deduction is available for single filers with a MAGI between $75,000 and $90,000 and joint filers with a MAGI between $155,000 and $185,000.

Also, to be eligible for the deduction, an individual must have the primary obligation to pay the loan and must pay the interest during the tax year. The deduction may not be claimed by someone who can be claimed as a dependent on another taxpayer's return. Borrowers can take the student loan interest deduction in the same year as the American Opportunity credit or Lifetime Learning credit, provided they qualify for each independently.

Tuition and fees deduction

The deduction for tuition and fees is not available in 2023. It was last available in 2020, when it was worth up to $4,000 for out-of-pocket qualified tuition and fee expenses paid during the year. Single filers with a modified gross income (MAGI) of $65,000 or less and joint filers with a MAGI of $130,000 or less could take the full $4,000 deduction. A $2,000 partial deduction was available for single filers with a MAGI between $65,000 and $80,000 and joint filers with a MAGI between $130,000 and $160,000.

Comparison of Credits/Deductions

	MAGI limits 2023	Qualified expenses include
American Opportunity credit $2,500	Single filer: $80,000 or less for full credit; $80,000 to $90,000 for partial credit Joint filer: $160,000 or less for full credit; $160,000 to $180,000 for partial credit	Tuition and fees, plus course materials
Lifetime Learning credit $2,000	Single filer: $80,000 or less for full credit; $80,000 to $90,000 for partial credit Joint filer: $160,000 or less for full credit; $160,000 to $180,000 for partial credit	Tuition and fees only
Student loan interest deduction $2,500	Single filer: $75,000 or less for full deduction, $75,000 to $90,000 for partial deduction Joint filer: $155,000 or less for full deduction; $155,000 to $185,000 for partial deduction	Tuition and fees, room and board, books, equipment, and other necessary expenses
Tuition and fees deduction	Deduction not available in 2023	Tuition and fees only

For more information, see IRS Publication 970.

The material presented includes information and opinions provided by a party not related to Thrivent. It has been obtained from sources deemed reliable; but no independent verification has been made, nor is its accuracy or completeness guaranteed. The opinions expressed may not necessarily represent those of Thrivent or its affiliates. They are provided solely for information purposes and are not to be construed as solicitations or offers to buy or sell any products, securities or services. Thrivent and its affiliates accept no liability for loss or damage of any kind arising from the use of this information. Concepts presented are intended for educational purposes. This information should not be considered investment advice or a recommendation of any particular security, strategy, or product. The concepts in this presentation are intended for educational purposes only. They may not be suitable for your client's particular situation. The suitability of any specific product or strategy will be dependent upon your clients' particular situation.

Hypothetical example is for illustrative purposes. May not be representative of actual results. Past performance is not necessarily indicative of future results.

Thrivent and its financial advisors and professionals do not provide legal, accounting or tax advice. Consult your attorney or tax professional.

Thrivent financial advisors and professionals have general knowledge of the Social Security tenets. For complete details on your situation, contact the Social Security Administration.

Thrivent is the marketing name for Thrivent Financial for Lutherans. Insurance products issued by Thrivent. Not available in all states. Securities and investment advisory services offered through Thrivent Investment Management Inc., a registered investment adviser, member FINRA and SIPC, and a subsidiary of Thrivent. Licensed agent/producer of Thrivent. Registered representative of Thrivent Investment Management, Inc. Thrivent.com/disclosures.

Insurance products, securities and investment advisory services are provided by appropriately appointed and licensed financial advisors and professionals. Only individuals who are financial advisors are credentialed to provide investment advisory services. Visit Thrivent.com or FINRA's Broker Check for more information about our financial advisors.

A licensed insurance agent/producer may contact you and financial solutions, including insurance may be solicited.

Certified Financial Planner Board of Standards Inc. (CPF Board) owns the CFP® certification mark (with plaque design) logo in the United States, which it authorized use of by individuals who successfully complete CFP Board's initial and ongoing certification requirements. 3172761.4

Prepared by Broadridge Investor Communication Solutions, Inc. Copyright 2023