

2020 NATIONAL INCOME TAX WORKBOOK

CHAPTER 10: INDIVIDUAL TAX ISSUES
PART 2 P. 321



Issue 1: Allocation of Tax Benefits

Issue 2: Premium Tax Credit

Issue 3: Tax Benefits for Education Expenses



DEPENDENT RELATED CREDITS

ISSUE 1: ALLOCATION OF TAX BENEFITS

P. 322

Earned Income Credit (**EIC**) Eligibility

TP must

1. Have AGI below phaseout (Figure 10.1)
2. Have valid SSN
3. Not file MFS
4. Be US citizen or resident alien all year
5. No foreign earned income
6. Have \$3,650 or less investment income
7. Have earned income

EIC ELIGIBILITY CONT.

PP. 322-323

Additional Rules with No Qualifying Children

- TP/ spouse if MFJ at least 25 and under 65 years
- Not dependent of another person
- Not qualifying child of another person
- Live in US for more than ½ year

Additional Rules with Qualifying Children

1. Child must meet relationship, age, residency, & joint return tests
2. Child can only be used once
3. Generally cannot be qualifying child of another TP

RULES FOR QUALIFYING CHILDREN - SEC. 152

P. 323

Relationship Test

Must be one of specified family members

Age Test

Under 19 at end of year

Under 24 if full time student

Residency Test

Child lived with TP more than 6 months

Joint Return Test

Child can't file joint return unless return only for a refund of income tax paid

CHILD TAX CREDIT

P. 323

Nonrefundable credit

Income phaseout threshold with one child

MFJ \$440,000

Other filing status \$240,000

Qualifying child under age 17 and meets dependent tests

Support test - Child cannot furnish more than $\frac{1}{2}$ support

See 2019 workbook for a discussion of additional CTC

CREDIT FOR OTHER DEPENDENTS

P. 324

- Nonrefundable credit for person who qualifies as dependent but not eligible for CTC
- MAGI below threshold

Qualifying Child

Under age 19 or full-time student and under age 24

Use if no SSN, but has ITIN or ATIN

Qualifying Relative

See list

Includes individual who lives with TP and is a member of household

Gross income limit is \$4,300

CREDIT FOR OTHER DEPENDENTS CONT.

P. 324

Ex. 10.1 Parent Living with Child

- Fred lives w/ his father Marvin
- Marvin's income is \$3,000
- Fred pays over $\frac{1}{2}$ Marvin's support
- Marvin is a qualifying relative for ODC

OBSERVATION – CANADA AND MEXICO

P. 324

ODC applies to US Citizens or nationals or residents of the US

ODC does not apply to residents of Mexico or Canada who are not US citizens or nationals

HEAD OF HOUSEHOLD FILING STATUS

PP. 324-325

Requirements

1. Unmarried or considered unmarried as of the last day of the tax year
2. Paid over $\frac{1}{2}$ of the household expenses
3. Qualifying person lives in household more than $\frac{1}{2}$ the year
 - Father or mother – does not have to live with TP, but qualifies a dependent and pays over $\frac{1}{2}$ of parent's housing
 - Ex. 10.2 Live in girlfriend is not a qualifying relative

CHILD & DEPENDENT CARE CREDIT

P. 325

Nonrefundable credit for workers and those looking for work

- Pay for care of qualifying person
- Have earned income during the year
- Pay care expenses
- Use qualifying provider
- Cannot file MFS unless meet exception
- Provide identity of provider on return

OBSERVATION – PAYMENTS TO RELATIVES

P. 325

Payments to relatives or dependents do not qualify.

Include:

- Dependents

- Children under 19

- Spouse

- Parent of the qualifying child under age 13

QUALIFYING PERSON

P. 325

- Dependent child under age 13 and qualifying child
- Spouse who is unable to care for self and lived with TP more than $\frac{1}{2}$ of the year
- Person who is unable to care for self, lived with TP more than $\frac{1}{2}$ year, and
 - Dependent
 - Would have been dependent except for failing certain tests
- Ex. 10.3 Disabled spouse has nursing care and expenses are eligible for the credit.

QUALIFYING CHILD OF DIVORCED PARENTS

PP. 325-326

If can't claim child as dependent, still qualifying if:

- Child under 13 or unable to care for self
- More than $\frac{1}{2}$ of support is paid by parents who are divorced, separated, or lived apart
- Parents have custody for more than $\frac{1}{2}$ of year
- TP is custodial parent – more than $\frac{1}{2}$ of nights if equal number, higher AGI

ALLOCATING CREDITS

P. 326

Must go together:

EIC

CTC

ACTC

ODC

H of H

Child and dependent care expense credit

Exclusion for dependent care benefits

Special rules for divorced/separated parents

TIE BREAKER RULES

P. 326

1. Parents if filing a joint return and claim as qualifying child
2. Parent if only 1 person is the parent, and claims qualifying child
3. Parent where child lived longer
4. Higher AGI parent & their spouse if their time is the same and both parents claim child
5. Person with highest AGI if no parent can claim child
6. Highest AGI person if neither parent does claims child



Earned Income Credit

If not able to claim child, TP may be eligible to claim self only EIC

EXAMPLES OF ALLOCATING CREDITS

PP. 326-327

Ex. 10.4 Amy and her 12 y.o. child, Annie, live with Amy's mom, Ruth. Amy is 25 and has \$12,000 AGI. Ruth has \$15,000 AGI. Annie's father does not live with them. Amy can claim Annie as she is the parent.

Ex. 10.5 Same facts but Amy does not claim Annie as her qualifying child. Ruth's AGI is higher, and she can claim her.

Ex. 10.6 Betty and Burt are unmarried and do not live together. Their 5 y.o. child stays with mother during the week and father on the weekends. Child lives with Betty more time than Burt, so Betty can claim him.

EXAMPLES CONT.

P. 327

Ex. 10.7 Same facts but Betty and Burt live together with their son. Parent with higher AGI can claim child.

Ex. 10.8 David lives with grandparent, Dorothy who provides more than $\frac{1}{2}$ his support. Parents do not live w/ them and neither provides more than $\frac{1}{2}$ support. David is a qualifying child for Dorothy.

POLLING QUESTION CH. 10 NUMBER 1

SECTION 152 DEFINES A DEPENDENT AND THE RULES MUST BE MET. THEY ARE RELATIONSHIP, AGE, RESIDENCY, JOINT RETURN AND SUPPORT TEST.

FOR WHICH OF THE FOLLOWING ITEMS DOES THE CHILD HAVE TO MEET THESE TESTS?

- A. EARNED INCOME CREDIT
- B. CHILD TAX CREDIT
- C. CHILD AND DEPENDENT CARE CREDIT
- D. HEAD OF HOUSEHOLD FILING STATUS
- E. ALL OF THE ABOVE

ISSUE 2: PREMIUM TAX CREDIT

P. 328

PTC is refundable credit to purchase health insurance through Marketplace

Can get an advance of the PTC (APTC)

Based on expected income and family size

TP must reconcile PTC with APTC claimed

Form 8962



GENERAL RECONCILIATION RULES

P. 329

Reconciliation of APTC compares

1. Amount of PTC used during the year
2. PTC actually allowed

PTC = second lowest cost silver plan in the Marketplace less a % of household income

From 1095-A reports the enrollment premiums, SLCSP premium, and APTC amount

NOTE: 1095-A may be blank or wrong, practitioner can look up the SLCSP premium online

RECONCILIATION RULES CONT.

P. 329

Failure to pay the premium starts a 3-month grace period
The coverage may be cancelled retroactively

Ex. 10.10 Cancelled Coverage

Fred pays for first 4 months, but does not pay for May, June, and July.
On the tax return, Fred does not consider the APTC for June or July.

Report an overpayment of APTC on Schedule 2, Additional Taxes

If APTC is less than allowed PTC, the refund is on Schedule 3, Additional Credits and Payments.

POLICY PAYMENT ALLOCATIONS

P. 330

- Reconciliation for tax family – changes may require allocation of premiums and APTC
- All but MFS can agree on allocation
- Figure 10.2 default allocations

POLLING QUESTION CH. 10 NUMBER 2

THE PREMIUM TAX CREDIT IS BASED UPON THE TAXPAYER'S FACTS UNDER WHICH OF THE FOLLOWING:

- A. INCOME
- B. FAMILY SIZE
- C. ADVANCE PREMIUM TAX CREDIT
- D. SECOND – LOWEST COST SILVER PLAN PREMIUM
- E. ALL OF THE ABOVE

PTC IN YEAR OF MARRIAGE

P. 331

- General rule is to add the 1095-A forms together
- Alternative calculation if
 1. Unmarried as of Jan.1
 2. Married as of Dec. 31
 3. File a joint return
 4. Anyone was enrolled month before marriage
 5. APTC paid
 6. Excess APTC on Worksheet 3 or income 401% of poverty level

ALTERNATIVE CALCULATION

P. 332

Spouse and dependents of that spouse are included in alt. family size

Alt. family size determines alt. monthly contribution

May reduce excess APTC

Worksheets in Publication 974 and Form 8962 instructions

Worksheet 1 like Part 1 of Form 8962

ALTERNATIVE CALCULATION CONT. PP. 332-333

- Up to 8 steps
- Consider the month of marriage to be a pre-marriage month
- First compute alt. monthly contribution amount based on $\frac{1}{2}$ of the income
- Compute the pre-marriage credit for both spouses
- Then compare to regular calculations
- Use alternative if it is less

EX.10.11

P. 333

- Paulette Oak and Quentin Cedar married and combined households on July 18, 2019
- Both had coverage before the marriage
- Paulette had coverage for herself - 1095-A thru July
- Quentin had coverage for himself and 2 children - 1095-A thru July
- They also received a 1095-A for the balance of the year with a family size of 4
- Total income was \$76,000

FIG. 10.3

Part II, Covered Individuals			
A. Covered Individual	B. Covered Individual SSN	D. Coverage Start Date	E. Coverage Termination Date
Paulette Oak	xxx-xx-xxxx	01/01/19	07/31/19

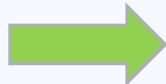
Part III, Coverage Information			
Month	A. Monthly Enrollment Premiums	B. Monthly Second-Lowest-Cost Silver Plan (SLCSP) Premium	C. Monthly Advance Payment of PTC
January	500	433	116
February	500	433	116
March	500	433	116
April	500	433	116
May	500	433	116
June	500	433	116
July	500	433	116
Annual Totals	3,500	3,031	812



FIGURE 10.4 Quentin Cedar's 1095-A for January through July

Part II, Covered Individuals

A. Covered Individual	B. Covered Individual SSN	D. Coverage Start Date	E. Coverage Termination Date
Quentin Cedar	xxx-xx-xxxx	01/01/19	07/31/19
Ron Cedar	xxx-xx-xxxx	01/01/19	07/31/19
John Cedar	xxx-xx-xxxx	01/01/19	07/31/19



Part III, Coverage Information

Month	A. Monthly Enrollment Premiums	B. Monthly Second-Lowest-Cost Silver Plan (SLCSP) Premium	C. Monthly Advance Payment of PTC
January	1,000	833	678
February	1,000	833	678
March	1,000	833	678
April	1,000	833	678
May	1,000	833	678
June	1,000	833	678
July	1,000	833	678
Annual Totals	7,000	5,381	4,746

FIGURE 10.5 Form 1095-A for August through December



Part II, Covered Individuals			
Covered Individual	B. Covered Individual SSN	D. Coverage Start Date	E. Coverage Termination Date
Paulette Cedar	xxx-xx-xxxx	08/01/19	12/31/19
Quentin Cedar	xxx-xx-xxxx	08/01/19	12/31/19
Ron Cedar	xxx-xx-xxxx	08/01/19	12/31/19
John Cedar	xxx-xx-xxxx	08/01/19	12/31/19
Part III, Coverage Information			
Month	A. Monthly Enrollment Premiums	B. Monthly Second-Lowest-Cost Silver Plan (SLCSP) Premium	C. Monthly Advance Payment of PTC
August	1,350	1,167	573
September	1,350	1,167	573
October	1,350	1,167	573
November	1,350	1,167	573
December	1,350	1,167	573
Annual Totals	6,750	5,835	2,865

EX. 10.11 CONT.

PP. 333-337

Complete Form 8962 Part 1, lines 1-8 (Figure 10.6) and Table 4 (Figure 10.7)

Line 5 Form 8962 is less than 401% so complete Worksheet 3 to compute allowable PTC (Figure 10.8)

FIG 10.6



Form 8962 Department of the Treasury Internal Revenue Service	Premium Tax Credit (PTC) ▶ Attach to Form 1040, 1040-SR, or 1040-NR. ▶ Go to www.irs.gov/Form8962 for instructions and the latest information.	OMB No. 1545-0074 2019 Attachment Sequence No. 73	
Name shown on your return Paulette and Quentin Cedar		Your social security number XXX-XX-XXXX	
You cannot take the PTC if your filing status is married filing separately unless you qualify for an exception (see instructions). If you qualify, check the box <input type="checkbox"/>			
Part I Annual and Monthly Contribution Amount			
1 Tax family size. Enter your tax family size (see instructions)		1	4
2a Modified AGI. Enter your modified AGI (see instructions)	2a 76,000		
b Enter the total of your dependents' modified AGI (see instructions)	2b 0		
3 Household income. Add the amounts on lines 2a and 2b (see instructions)		3	76,000
4 Federal poverty line. Enter the federal poverty line amount from Table 1-1, 1-2, or 1-3 (see instructions). Check the appropriate box for the federal poverty table used. a <input type="checkbox"/> Alaska b <input type="checkbox"/> Hawaii c <input checked="" type="checkbox"/> Other 48 states and DC		4	25,100
5 Household income as a percentage of federal poverty line (see instructions)		5	302 %
6 Did you enter 401% on line 5? (See instructions if you entered less than 100%.) <input checked="" type="checkbox"/> No. Continue to line 7. <input type="checkbox"/> Yes. You are not eligible to take the PTC. If advance payment of the PTC was made, see the instructions for how to report your excess advance PTC repayment amount.			
7 Applicable Figure. Using your line 5 percentage, locate your "applicable figure" on the table in the instructions		7	.0986
8a Annual contribution amount. Multiply line 3 by line 7. Round to nearest whole dollar amount	8a 7,494	b Monthly contribution amount. Divide line 8a by 12. Round to nearest whole dollar amount	8b 625

Number to beat \$625



FIGURE 10.15

Form 8962 – Save \$931 reduced to \$295

P. 343

Monthly Calculation	(a) Monthly enrollment premiums (Form(s) 1095-A, lines 21–32, column A)	(b) Monthly applicable SLCSP premium (Form(s) 1095-A, lines 21–32, column B)	(c) Monthly contribution amount (amount from line 8b or alternative marriage monthly calculation)	(d) Monthly maximum premium assistance (subtract (c) from (b), if zero or less, enter -0-)	(e) Monthly premium tax credit allowed (smaller of (a) or (d))	(f) Monthly advance payment of PTC (Form(s) 1095-A, lines 21–32, column C)
12 January	1,500	1,266	492	774	774	794
13 February	1,500	1,266	492	774	774	794
14 March	1,500	1,266	492	774	774	794
15 April	1,500	1,266	492	774	774	794
16 May	1,500	1,266	492	774	774	794
17 June	1,500	1,266	492	774	774	794
18 July	1,500	1,266	492	774	774	794
19 August	1,350	1,167	625	542	542	573
20 September	1,350	1,167	625	542	542	573
21 October	1,350	1,167	625	542	542	573
22 November	1,350	1,167	625	542	542	573
23 December	1,350	1,167	625	542	542	573
24 Total premium tax credit. Enter the amount from line 11(e) or add lines 12(e) through 23(e) and enter the total here					24	8,128
25 Advance payment of PTC. Enter the amount from line 11(f) or add lines 12(f) through 23(f) and enter the total here					25	8,423
26 Net premium tax credit. If line 24 is greater than line 25, subtract line 25 from line 24. Enter the difference here and on Schedule 3 (Form 1040 or 1040-SR), line 9, or Form 1040-NR, line 65. If line 24 equals line 25, enter -0-. Stop here. If line 25 is greater than line 24, leave this line blank and continue to line 27					26	0
Part III Repayment of Excess Advance Payment of the Premium Tax Credit						
27 Excess advance payment of PTC. If line 25 is greater than line 24, subtract line 24 from line 25. Enter the difference here					27	295
28 Repayment limitation (see instructions)					28	2,650
29 Excess advance premium tax credit repayment. Enter the smaller of line 27 or line 28 here and on Schedule 2 (Form 1040 or 1040-SR), line 2, or Form 1040-NR, line 44					29	295

POLLING QUESTION CH. 10 NUMBER 3

THE PREMIUM TAX CREDIT HAS SPECIAL RULES WHEN TWO TAXPAYERS **MARRY DURING THE YEAR**. IT REQUIRES THREE CALCULATIONS AND HAS FORMS TO HELP CALCULATE FOR EACH PERSON BEFORE THEY MARRY AND THEN ONE FOR THE MONTHS THEY HAD BEEN MARRIED DURING THE YEAR.

HAVE YOU DONE THIS CALCULATION?

A. OFTEN

B. ONCE OR TWICE

C. NEVER - I WILL DRAG OUT THIS EXAMPLE IF I SEE IT IN MY PRACTICE.

CHANGE IN CIRCUMSTANCES

P. 344

Report when circumstance change

- Household Income changes – lump sum payments or IRA withdrawals or unemployment
- Marriage or divorce
- Birth or adoption, death in family
- Change in coverage from government or employer plans
- Move to different address

NOTE: Consider using Tax Advocate Service web site calculator



EDUCATION CREDITS AND LOANS

ISSUE 3: TAX BENEFITS FOR EDUCATION EXPENSES

P. 345

TP can claim tax benefits for payments of education expenses

- American opportunity tax credit
- Lifetime learning credit
- Deductions
- Exclusions

AMERICAN OPPORTUNITY TAX CREDIT

P. 345

TP can claim AOTC for self, spouse, or dependent

Maximum \$2,500 per eligible student, which is 100% of first \$2,000, and 25% of next \$1,000

Up to 40% of credit or \$1,000 is refundable unless the child subject to tax on unearned income

Eligibility

In degree program

½ time for 1 academic period (all qualifying expense for entire year)

Not yet finished first four years of post-secondary schooling

Not have claimed AOTC for more than 4 years

No felony drug conviction



PRACTITIONER NOTE Graduate Students

Semester of undergrad senior year may still qualify for the entire year

Check IRS website for Q&A

Income Limit

MAGI unmarried \$80,000 or less (MFJ less than \$160,000) then phased out at \$90,000 unmarried (\$180,000 MFJ)

MAGI- add back of foreign income exclusion, housing exclusion and deduction, American Samoa or Puerto Rico income exclusions

AOTC QUALIFIED EXPENSES

P. 346

- Tuition
- Nonacademic fees required pay to school as condition of enrollment
- Books, supplies, and equipment

(OBSERVATION: Books and equipment don't have to be paid to the educational institution)

Expenses must be incurred for academic period that begins in tax year or first 3 months of the following year

Expenses cannot be paid with tax-free educational assistance or other credit/deduction amounts

AOTC QUALIFIED EXPENSES CONT.

P. 348-9

Not room or board, transportation, medical
Include expenses paid by the student

POLLING QUESTION CH. 10 NUMBER 4

WHAT ARE EDUCATION EXPENSE REQUIREMENTS FOR THE AMERICAN OPPORTUNITY CREDIT?

A. NON-DEGREE PROGRAM

B. FIFTH YEAR OF STUDY

C. STUDENT HAS A DRUG FELONY CONVICTION

D. NONE OF THESE EXPENSES OR PEOPLE WILL QUALIFY

EXAMPLE 10.12 CONT.

P. 347

Ella's 1098-T

FIGURE 10.17 Form 1098-T

CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number State University 1234 University Drive College Town, USA 12345		1 Payments received for qualified tuition and related expenses \$ 5,200.00 2	OMB No. 1545-1574 <div style="font-size: 2em; font-weight: bold; text-align: center;">2020</div> Form 1098-T	Tuition Statement Copy B For Student This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.
FILER'S employer identification no. XX-XXXXXXX	STUDENT'S TIN XXX-XX-XXXX	3		
STUDENT'S name Ella Easton		4 Adjustments made for a prior year \$	5 Scholarships or grants \$ 2,000.00	
Street address (including apt. no.) 890 Stratford Road City or town, state or province, country, and ZIP or foreign postal code College Town, USA 12345		6 Adjustments to scholarships or grants for a prior year \$	7 Checked if the amount in box 1 includes amounts for an academic period beginning January–March 2021 <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)	8 Check if at least half-time student <input checked="" type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	10 Ins. contract reimb./refund \$	

Form **1098-T**
(keep for your records)
www.irs.gov/Form1098T
Department of the Treasury - Internal Revenue Service

Credit Recapture

If refund or tax-free assistance in subsequent year,
report the refund in the subsequent year

Ex. 10.14 AOTC Recapture

Sandra paid \$7,000 for Matthew's tuition and claimed a \$2,500 credit on her 2020 return. In 2021, she received a \$4,000 refund. She recalculates her credit to be \$2,250

Include \$250 on 2021 return

LIFETIME LEARNING CREDIT

P. 350

Credit has no limit for the number of years TP can claim

Maximum yearly credit is \$2,000 (20% of first \$10,000)

Credit only offsets tax, not refundable

Who is eligible – TP, spouse, or dependent

Courses to acquire or improve job skills or get a degree

Ex. 10.15 Esther took classes to keep her real estate license and James, her son, got a loan to cover his tuition. She can claim a \$1,000 lifetime learning credit (20% of \$5,000). Or she can take \$2,125 AOTC and her own lifetime learning credit of \$300.

LIFETIME LEARNING CREDIT CONT. PP. 350-351

Phaseout begins at \$59,000 (\$118,000 MFJ)

Qualified expenses are tuition and related expenses

The expenses must be paid to the institution for enrollment

Only payments in the current year

Not eligible for any other exclusion, credit, or deduction

Report on Form 8863

Subsequent refund must recapture credit just like AOTC

EDUCATION DEDUCTIONS

P. 351

If credit is not available or not elected, TP may claim a deduction

Student Loan Interest

\$2,500 of qualified student loan interest – adjustment to AGI

Includes required and voluntary interest



NOTE:

CARES Act suspended temporarily payments from March 13 – Sept. 30, 2020.

STUDENT LOAN INTEREST DEDUCTION

PP. 351-352

Eligibility

TP must be legally required to repay qualified loan

Loan must be for a degree program, $\frac{1}{2}$ time enrollment

TP cannot be a dependent, not MFS, or nonresident alien

Income limits

Phase out between \$70,000 and \$85,000 (\$140,000 to \$170,000 MFJ)

QUALIFIED EDUCATION LOAN

P. 352

At the time of the loan, it must be used by TP, spouse, or dependent

Diff. criteria for dependent

Expenses must be incurred within a reasonable time

No loans from related parties, including corporations or partnerships owned directly or indirectly by TP

Qualified expenses are tuition, fees, books, supplies, equipment, transportation

Room and board, limited to federal financial aid amounts or actual amount charged by the school

CLAIMING STUDENT LOAN INTEREST DEDUCTION P. 353

Lender sends Form 1098-E Figure 10.19

TP reports on Form 1040 Schedule 1 (limited to \$2,500)

CORRECTED (if checked)

RECIPIENT'S/LENDER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		OMB No. 1545-1576 2020 Form 1098-E	Student Loan Interest Statement
RECIPIENT'S TIN	BORROWER'S TIN	1 Student loan interest received by lender \$	
BORROWER'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		2 If checked, box 1 does not include loan origination fees and/or capitalized interest for loans made before September 1, 2004 <input type="checkbox"/>	
Account number (see instructions)			

Form **1098-E** (keep for your records)
www.irs.gov/Form1098E
Department of the Treasury - Internal Revenue Service

LIMITS ON STUDENT LOAN INTEREST DEDUCTION

P. 354

Cannot claim if amounts otherwise deductible or tax-free i.e. Sec. 529 Plans

If paid for qualified higher education expenses, not subject to tax

Expanded to elementary or secondary schools up to \$10,000

SECURE Act adds apprenticeships

Update to text – SECURE Act **homeschooling expenses not** in the final law

Beneficiaries cannot deduct the interest on student loans

Employer Payment of Student Loans per written plan

Not included in employee's income and no interest is deductible

WORK RELATED EDUCATION

P. 355

Deduction for classes that improve or maintain skills

Not to qualify for new trade or business

Education credit or deduction, but not both

Tuition and Fees Deduction

Deduction (adjustment to AGI) up to \$4,000 on **Form 8917**, Form 1040
Schedule 1

Deduction expires 12/31/2020

FIGURE 10.21

P. 356

Who can claim the deduction

FIGURE 10.21 Claiming the Student as a Dependent

If your dependent is an eligible student and you	and	then
claim your dependent on your tax return	you paid all qualified education expenses for your dependent	only you can deduct the qualified education expenses that you paid. Your dependent cannot take a deduction.
claim your dependent on your tax return	your dependent paid all qualified education expenses	no one is allowed to take a deduction.
do not claim your dependent on your tax return	you paid all qualified education expenses for your dependent	no one is allowed to take a deduction.
do not claim your dependent on your tax return	your dependent paid all qualified education expenses	no one is allowed to take a deduction.

TUITION & FEES DEDUCTION

P. 356

Ex. 10.17 Elizabeth paid \$4,500 tuition for her daughter who meets the dependent tests. Elizabeth files as head of household and MAGI is \$55,000. She can claim the \$4,000 tuition and fees deduction.



Planning Pointer

Deduction reduces AGI. Could increase financial aid eligibility, qualify for more EIC, or other tax benefits limited by AGI.

EMPLOYER PROVIDED EDUCATION BENEFITS

P. 357

Employer's plan may exclude education benefits from employee's income

Limited to \$5,250 per year

Non-discrimination

Limits on owner & related parties

Undergraduate or graduate education

Sports and games if reasonable relationship to employer's business or required as part of the degree program

CARES expanded exclusion to student loan interest & principal paid by employer after March 27, 2020 before Jan.1 2021

DISCHARGE OF STUDENT LOAN DEBT & REPAYMENT ASSISTANCE

P. 357

Exception to gross income inclusion of discharge of indebtedness
– certain student loans

Cancellations of qualified debt by qualified lender due to

- Death or total disability
- Canceled in return for services for a length of time for certain professions
- School closed

Eligible institution – Regular faculty, curriculum, student body engaged in education

LENDER RECEIVES SERVICES

PP. 357-358

Cancellation of loan because of services performed for the lender must be included in borrower's gross income

See Financial Distress chapter for other exclusions that may apply

SCHOOL CLOSURE

P. 358

Since 2015 various schools have closed leaving students with loans but benefits were not received

If the student was attending the school or withdrew shortly before, the cancelled debt does not have to be recognized in income

STUDENT LOAN REPAYMENT ASSISTANCE

P. 358

Borrower does not recognize income when repayments are made by

- National Health Service Corps Loan Repayment Program
- State repayment under Public Health Services Act
- Any other state loan repayment program to increase health services in areas w/ shortage

FINANCIAL AID

P. 358

Scholarships, grants, tuition reduction

Taxable vs non-taxable depends how money is used

Scholarships and Fellowships

Scholarship allows student to attend to study

Fellowship is for research purposes

Either covers tuition and related expenses and may cover room and board or family allowance

Qualified scholarships and fellowships are excludable

FINANCIAL AID CONT.

PP. 358-359

Scholarships and fellowships not excluded if

- Amount exceeds eligible costs
- Amount is designated for nonqualified expenses (room and board)
- Amount is payment for teaching or research activities

Unless from listed organization with work-learning-service program

HIGHER EDUCATION EMERGENCY RELIEF

P. 360

CARES Act allows higher ed institutions funds to support students with financial needs related to coronavirus pandemic

Student can receive qualified disaster relief payments - not taxable

No credits or deductions for the expenses paid with this money

NOTE: Emergency grants from Dept. of Ed not taxable, no deduction for expense covered



TUITION REDUCTIONS

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Colleges and universities offer reduced or free tuition as a non-taxable fringe to employees and retirees

Undergraduate students get exclusions from income if

- Current employees

- Disabled former employees

- Retired employees

- Surviving spouses of eligible employee (current and former)

- Current spouse and dependents of eligible employees

- Children under 25 qualify if parents divorce or are deceased

TUITION REDUCTIONS CONT.

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Graduate students who teach or do research qualify for exclusion

Paid wages, report in income

Work Study Jobs

Wages paid are taxable compensation

If employed by school where enrolled are generally exempt from social security and Medicare

Off-campus work are subject to social security and Medicare, even if receive academic credit

QUESTIONS?