

**Earlham School of Religion**  
**HIGHLIGHTS FROM IRS PUBLICATION 970**  
***TAX BENEFITS FOR EDUCATION***

There are several tax benefits available to many students and graduates. You can find extensive details in IRS Publication 970 (<http://www.irs.gov/pub/irs-pdf/p970.pdf>). Other helpful information can be found at: <http://www.irs.gov/individuals/students/index.html>  
<http://www.irs.gov/newsroom/article/0,,id=213044,00.html>

**The purpose of this document is to assist you in deciding if you should look further into any of the available tax benefits. It is not intended to provide you with specific tax advice.**

The Highlights will follow along in the same order as Publication 970.

Scholarships, Fellowships, Grants and Tuition Reductions.

- ESR Cooper Scholarships and Need-based aid scholarships ARE tax-free
- Scholarships you receive from other sources may be taxable if they are not used to pay for qualified expenses, but used for unqualified expenses such as daily living expenses.
- Scholarships you receive as payment for services generally are taxable.

Lifetime Learning Credit (LLC)

- This is a tax CREDIT, which directly reduces the amount of tax you owe, possibly down to zero.
- All students, part-time, full-time or occasional, degree seeking or not, may be eligible for up to \$2,000 per year, per tax return.
- You can claim an LLC for qualified expenses that are paid with the proceeds of a loan.
- You cannot claim an LLC for qualified expenses that are paid with a tax-exempt scholarship, such as a Need-based aid scholarship.
- You cannot claim an LLC if you claim a tuition and fees deduction or deduct them as business expenses. You should calculate your taxes each way to determine which is of greater benefit to you.

Student Loan Interest Deduction

- This is a tax DEDUCTION, which reduces your taxable income, even if you don't itemize deductions on Schedule A.
- Students who pay interest on loans taken out solely to pay qualified education expenses can reduce your taxable income by up to \$2,500 in 2010.
- Interest on all Federal Student Aid loans (Perkins and Stafford and Grad PLUS) you take out while at ESR qualify for this deduction. The Loan Origination fee that is deducted from Stafford loan disbursement may also be included
- **WARNING:** If you refinance a qualified student loan for more than your original loan, and you use the additional amount for any purpose other than qualified education expenses, you cannot deduct **any** interest paid on the refinanced loan

## Student Loan Cancellations and Repayment Assistance

If your student loan is cancelled or reduced due to working under certain conditions you may not have to include the amount in income.

## Tuition and Fees Deduction

- This is a tax DEDUCTION, which reduces your taxable income, even if you don't itemize deductions on Schedule A.
- All students, part-time, full-time, or occasional, degree seeking or not, may be eligible for up to \$4,000 per year.
- You can deduct tuition and fees that are paid with the proceeds of a loan.
- You cannot deduct tuition and fees that are paid with a tax-exempt scholarship, such as a Cooper or Need-based aid scholarship.
- You cannot deduct tuition and fees if you claim an LLC or deduct them as business expenses. You should calculate your taxes each way to determine which is of greater benefit to you.
- The amount of the deduction is tuition and fees (Registration and Technology only) up to \$4,000 paid in 2010 (there are limits based on your income).

## Early Distributions From IRAs

- You may not have to pay the 10% penalty tax for early distributions on your IRA if the money is used for qualified education expenses.
- If you are at least half time, qualified expenses include room and board, as reported on your Financial Aid Application budget sheet.
- You can include expenses that are paid with the proceeds of a loan.
- You cannot include expenses that are paid with a tax-exempt scholarship, such as a Need-based aid scholarship.

## Education Savings Bond Program

- You may be able to exclude interest from income if you use Series EE bonds issued after 1989 or Series I bonds to pay qualified education expenses.

## Employer-Provided Educational Assistance

- If you receive education assistance benefits from your employer under an educational assistance program, you can exclude up to \$5,250 of those benefits from taxable income.

## Business Deduction for Work-related Education

- You may be able to deduct work-related education expenses that are greater than 2% of your Adjusted Gross Income.
- There are many restrictions, so read Publication 970 carefully.

## How to get Tax Help

- Call the Taxpayer Advocate line at 877-777-4778
- [www.irs.gov/advocate](http://www.irs.gov/advocate)
- IRS Publication 1546, The Taxpayer Advocate Service of the IRS
- IRS Publication 910, IRS Guide to Fee Tax Service