Did you return to college this fall? Or maybe one of your children is in college? If you or a family member is in school, there are some tax breaks that you’ll want to take advantage of.

There are two major educational tax credit programs: the American Opportunity Tax Credit and the Lifetime Learning Credit.

The American Opportunity Tax Credit can be up to $2,500 annually for an eligible student for a total of $10,000 over the first four years of higher education. The good thing about this credit is that you can get up to $1,000 even if you owe no taxes.

The Lifetime Learning Credit has a tax credit of $2,000 on your federal tax return. There is no limit on the number of years you can claim this credit.

There is only one credit allowed per student. If you have several dependents attending, you can claim the credit they are eligible for — even if it results in more than one of the American Opportunity or the Lifetime Learning credits.

Both of these credits include qualified expenses, which are more than just the cost of tuition and fees. You will receive a 1098-T form from the school that includes all qualified expenses that you pay the school. In addition, both credits include textbooks, materials, supplies and equipment. So keep all receipts for expenses related to attending school.

These tax credits are dependent upon income, so you may not be eligible if your income is higher. Be sure to check at www.IRS.gov for specific information.

If you are an employee and need classes, you may be able to take a deduction for educational expenses. If you have certifications required for your job or have to take occasional classes to maintain this certification, your educational expenses may be deductible. In this case, you have to itemize deductions and this expense along with other
job-related expenses must exceed 2 percent of your income to be deducted on your return.

The classes or certification must be needed for you to keep your job, salary, or status. In other words, you can’t deduct what improves your skills, only those that are currently needed to maintain your job. If you are qualifying yourself for a new job, that is your responsibility and is not deductible.

If you are finished with your education and are paying back those loans, is there any tax credit available? When you pay consumer interest, it is, in general, not deductible. The big exception is interest on your home. Another exception is the interest paid on a student loan under certain circumstances. If your modified adjusted gross income is less than $75,000, you may be able to deduct the interest paid on a student loan. The student loan interest deduction is an adjustment to income, so itemized deductions is not required.

Be sure to check the Internal Revenue Service website for specific information on each of these credits.

Education is always a bargain and an investment in the future for you and your family. However, don’t pass up any of these deductions or credits that may improve your financial condition in the short term.

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