How to Max Out Education-Related Tax Breaks

ARTICLE 02.17.16 DEAN DORTON

If there was a college student in your family last year, you may be eligible for some valuable tax breaks on your 2015 return. To max out your education-related breaks, you need to see which ones you're eligible for and then claim the one(s) that will provide the greatest benefit. In most cases you can take only one break per student, and, for some breaks, only one per tax return.

Credits vs. deductions

Tax credits can be especially valuable because they reduce taxes dollar-for-dollar; deductions reduce only the amount of income that's taxed. A couple of credits are available for higher education expenses:

- The American Opportunity credit — up to $2,500 per year *per student* for qualifying expenses for the *first* four years of postsecondary education.
- The Lifetime Learning credit — up to $2,000 *per tax return* for postsecondary education expenses, even *beyond* the first four years.

But income-based phaseouts apply to these credits.

If you're eligible for the American Opportunity credit, it will likely provide the most tax savings. If you're not, the Lifetime Learning credit isn't necessarily the best alternative.

Despite the dollar-for-dollar tax savings credits offer, you might be better off *deducting* up to $4,000 of qualified higher education tuition and fees. Because it's an above-the-line deduction, it reduces your adjusted gross income, which could provide additional tax benefits. But income-based limits also apply to the tuition and fees deduction.

How much can your family save?

Keep in mind that, if you don't qualify for breaks for your child's higher education expenses because your income is too high, your child might. Many additional rules and limits apply to the credits and deduction, however. To learn which breaks your family might be eligible for on your 2015 tax returns — and which will provide the greatest tax savings — please contact us.