

Who Can — and Who Should — Take the American Opportunity Credit?



ARTICLE 03.22.17 DEAN DORTON

If you have a child in college, you may be eligible to claim the American Opportunity credit on your 2016 income tax return. If, however, your income is too high, you won't qualify for the credit — but your child might. There's one potential downside: If your dependent child claims the credit, you must forgo your dependency exemption for him or her. And the child can't take the exemption.

The limits

The maximum American Opportunity credit, per student, is \$2,500 per year for the first four years of postsecondary education. It equals 100% of the first \$2,000 of qualified expenses, plus 25% of the next \$2,000 of such expenses.

The ability to claim the American Opportunity credit begins to phase out when modified adjusted gross income (MAGI) enters the applicable phaseout range (\$160,000–\$180,000 for joint filers, \$80,000–\$90,000 for other filers). It's completely eliminated when MAGI exceeds the top of the range.

Running the numbers

If your American Opportunity credit is partially or fully phased out, it's a good idea to assess whether there'd be a tax benefit for the family overall if your child claimed the credit. As noted, this would come at the price of your having to forgo your dependency exemption for the child. So it's important to run the numbers.

Dependency exemptions are also subject to a phaseout, so you might lose the benefit of your exemption regardless of whether your child claims the credit. The 2016 adjusted gross income (AGI) thresholds for the exemption phaseout are \$259,400 (singles), \$285,350 (heads of households), \$311,300 (married filing jointly) and \$155,650 (married filing separately).

If your exemption is fully phased out, there likely is no downside to your child taking the credit. If your exemption isn't fully phased out, compare the tax savings your child would receive from the credit with the savings you'd receive from the exemption to determine which break will provide the greater overall savings for your family.

We can help you run the numbers and can provide more information about qualifying for the American Opportunity credit.