

The American Opportunity Tax Credit

(Source: www.irs.gov/recovery and IRS Publication 970)

Provided for your information by:

Retirement Security, Inc.
8655 Citizens Dr. #102
Wilsonville, OR 97070
800-888-6053

The \$787 billion American Recovery and Reinvestment Act of 2009, signed into law back in February, makes a temporary change to the Hope Education Tax Credit that could benefit you if you currently have a child in college.

For 2009 and 2010 only, the Hope Scholarship credit is “beefed up” and renamed the American Opportunity Tax Credit. Highlights include:

- It should be available to more families, because the eligible income limits have been increased
- The maximum annual credit amount increases to \$2,500 (up from \$1,800 under Hope)
- It can be used for the first four years of college, whereas the Hope Credit was only available for the first two years
- In addition to tuition and fees, course materials are included as an eligible expense

The American Opportunity credit is only for undergraduates going more than half time and doesn't replace the existing \$2,000 Lifetime Learning tax credit. (That one is still useful for graduate and part-time students.) But it can be claimed for all four years of undergraduate study, whereas the old Hope credit was only good for two years.

The amount of the new credit equals 100% of the first \$2,000 of qualified tuition and expenses paid and 25% of the next \$2,000 of expenses. So a student must have incurred \$4,000 in eligible expenses for a family to receive the \$2,500.

What are eligible expenses? That's the amount of qualifying tuition and related expenses, including student activity fees and required books, paid to an eligible educational institution on behalf of a student (the taxpayer, spouse or dependent) who is studying at least half-time.

Remember that you can't claim the American Opportunity or Lifetime Learning credits against expenses paid from any of the following sources:

- Expenses that were covered by the tax-free portion of a distribution from a 529 state college savings plan or Coverdell Education Savings Account (ESA);
- Tax-free scholarships and fellowships;
- Pell grants from the federal government;
- Employer-provider educational assistance (tuition reimbursement);
- Veterans' educational assistance;
- Other tax-free payments received as educational assistance

Families with a choice between the American Opportunity/Hope credit, the Lifetime Learning credit, and the above-the-line tuition deduction will almost always opt for the American Opportunity/Hope credit, because it usually results in the biggest benefit.

This communication should not be considered as an offer to sell or buy any securities, provide investment advice, or make investment recommendations. This information is being provided with the understanding that it is not intended to be interpreted as specific legal or tax advice. Individuals are encouraged to consult with a professional in regards to legal, tax, and/or investment issues.

Advisory Services offered through Investment Advisors, a division of ProEquities, Inc., a Registered Investment Advisor. Securities offered through ProEquities, Inc., a Registered Broker-Dealer and member FINRA & SIPC. Retirement Security is independent of ProEquities, Inc.