



## TAX BREAKS FOR STUDENTS

Several programs are now available to students to help alleviate their tax burden. The information listed here is a very brief description of what may be available. More detailed information is available.

### The Hope Scholarship

The Hope Scholarship is actually a tax credit, not a scholarship. Tax credits are subtracted directly from the tax a family owes, rather than reducing taxable income. A family must file a tax return and owe taxes to take advantage of this tax credit. The Hope credit is not refundable for families who do not pay taxes or who owe less in taxes than the maximum amount of the Hope tax credit for which the family is eligible. The actual amount of the credit depends on the family's income, the amount of qualified tuition and fees paid, and the amount of certain scholarships and allowances subtracted from tuition. The total maximum credit also is based on the number of eligible dependents.

An eligible student must be enrolled at least ½-time in an eligible program leading to a degree or certificate at an eligible school during the calendar year **and** must not have completed the first two years of such undergraduate studies. The student may claim the credit if the student is not claimed as a dependent by another taxpayer. This means the eligible student may also be the eligible taxpayer. In addition, the student may not have been convicted of a Federal or State felony drug offense before the end of the tax year in which the academic period occurs.

### The Lifetime Learning Tax Credit

The Lifetime Learning Tax Credit is a similar tax credit to the Hope Scholarship. It is a tax credit that is subtracted directly from a family's actual tax liability and does not reduce taxable income. The Lifetime Learning credit is not refundable.

A family may claim a tax credit of up to \$2000 per tax year for the taxpayer, the taxpayer's spouse, or any eligible dependents for an unlimited number of tax years. The actual amount of the credit depends on the family's income, the amount of qualified tuition and fees paid, and the amount of certain scholarships and allowances subtracted from tuition. This credit is family-based, rather than dependent-based like the Hope credit.

An eligible student may be enrolled at least ½-time in an eligible program leading to an undergraduate or graduate degree at an eligible school during the calendar year **or** may be enrolled at any enrollment level in any course of instruction at an eligible school to acquire/improve the student's job skills during the calendar year. The student may claim the credit if the student is not claimed as a dependent by another taxpayer.

### Student Loan Interest Deduction

The Taxpayer Relief Act of 1997 restores the deduction for interest paid on student loans. The maximum deduction that could be claimed is \$2,500.

Taxpayers must enter repayment in 1998 or later. The deduction is available to any borrower with a "qualified" education loan who meets the required income test. The borrower may be a student or the

parent or spouse of the student whose studies are funded by a loan. A student cannot file for the deduction if he or she is claimed as a dependent on a parent's tax return. A married borrower must file a joint tax return to claim the deduction. The government will apply different income limits, depending on the borrower's adjusted gross income.

To determine whether or not this interest can be deducted, we suggest you consult a qualified accountant or tax advisor.

For more information about these new tax credits and interest deduction, please refer to [www.irs.gov/prod/hot/not97-60.html](http://www.irs.gov/prod/hot/not97-60.html). This information was taken from IRS Notice 97-60 Administrative, Procedural and Miscellaneous Education Tax Incentives and the Families' Guide to the 1997 Tax Cuts for Education.

**The information on this fact sheet was accurate at the time of publication, but is subject to change without notice.**

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