

TAX YEAR
2026

Education Tax Benefits

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Education Tax Benefits

If you pay tuition, fees, and other costs for attendance at an eligible educational institution for yourself, your spouse, or your dependent, you may be able to take advantage of one or more of the education tax benefits.

You can claim more than one education benefit in a tax year as long as you do not use the same expenses for more than one benefit.

Exception: Qualified expenses used to claim education benefits can also be used to eliminate the 10% penalty on premature IRA distributions.

Education Deductions

Deductions reduce the amount of income subject to income tax. Deductions for education expenses include:

- Student loan interest deduction up to $2,500 from gross income. Income limitations apply.
- Business deduction on Schedule C or F. You may be able to deduct the cost of education related to a business or farm activity.

Education Tax Credits

Tax credits reduce the amount of income tax you may have to pay. Income limitations apply. The education credits are claimed on Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits).*

- American Opportunity Credit, $2,500 maximum per student per year.
- Lifetime Learning Credit, $2,000 maximum per tax return per year.

If you are eligible for both credits you can choose which credit to claim, but both credits cannot be claimed for the same student for the same year.

Comparison of Education Credits

American Opportunity Credit	*Lifetime Learning Credit*
Up to $2,500 per eligible student.	Up to $2,000 per tax return.
100% of the first $2,000, plus 25% of the next $2,000 of qualifying expenses for each student.	20% of the first $10,000 of total qualifying expenses.
40% of the credit (up to $1,000) may be refundable.	Nonrefundable tax credit.
Eligible years: • Until the first four years of postsecondary education are completed. • Reduced by number of years the American Opportunity Credit and Hope Credit was claimed for the student.	Eligible years: • All years of postsecondary education.
Qualifying expenses: • Tuition, required enrollment fees, and • Course-related books, supplies, and equipment.	Qualifying expenses: • Tuition and required enrollment fees.
The student must be pursuing an undergraduate degree or other recognized education credential.	The student need not be pursuing a degree or credential.
Student must be enrolled at least half-time for at least one academic period beginning during the year.	Student must be enrolled in at least one course.
Additional restrictions: • The student can have no felony drug convictions. • Taxpayer cannot use MFS status and cannot be claimed as a dependent by another person. • The credit for taxpayers under age 24 may not be refundable	Additional restrictions: • None.

Income limits. The American Opportunity Credit and the Lifetime Learning Credit are both phased out at modified AGI between $80,000 and $90,000 ($160,000 and $180,000 Married Filing Jointly).



Education Tax Benefits

Penalty-Free IRA Distributions

If you withdraw money from your IRA before you are age 59½, you are generally subject to a penalty of 10% of the distribution in addition to any tax that may be due on the distribution.

- The 10% penalty does not apply to traditional IRA or Roth IRA withdrawals if you use the money to pay qualified education expenses for yourself, spouse, or for any child or grandchild of yourself or your spouse.
- Qualified education expenses include tuition, fees, books, supplies, equipment, and special needs services required for enrollment or attendance at an eligible educational institution. Room and board for students enrolled at least half-time in a degree or certificate program may also qualify.
- Expenses must be reduced by tax-free scholarships and other tax-free assistance the student receives, but not by gifts or inheritances.

Education Savings Plans

Contributions that you make to education savings plans are not federally tax deductible, but the earnings accumulate tax free. In addition, no tax will be owed on distributions if they are less than the beneficiary's qualified education expenses. Qualified expenses are reduced by scholarships, other tax-free assistance, and amounts used to calculate education credits.

- ***Qualified Tuition Programs (QTPs).*** States sponsor QTPs to allow prepayment of a student's qualified higher education or elementary and secondary (K-12) education expenses. For information on a specific QTP, you need to contact the state agency or eligible educational institution that established and maintains it. If the QTP is being used for elementary and secondary education expenses, the limit for tax-free distributions is $20,000 per year. This limitation applies on a per-student basis, rather than a per-account basis, and does not apply to distributions used for college.
  Note: QTPs are also called 529 Plans because they are authorized under section 529 of the Internal Revenue Code.
- ***Coverdell Education Savings Accounts (ESAs).*** A Coverdell ESA can be used to pay a student's eligible K-12 expenses, as well as higher education expenses. Coverdell ESA contributions are limited to $2,000 total per year for each beneficiary, no matter how many accounts have been established or how many people are contributing. Unless the beneficiary is a person with special needs, contributions to a Coverdell ESA must stop before the beneficiary reaches age 18 and the account balance must be distributed within 30 days after the beneficiary reaches age 30 (or dies, if earlier).

Exclusions From Gross Income

An exclusion from income means you do not report the benefit you receive as income and you do not pay tax on it, but you also cannot use that same tax-free benefit for a deduction or credit.

- You may exclude the part of scholarships, fellowships, and grants that you use for qualifying education expenses while you are a degree candidate.
- You may exclude up to $5,250 paid for you under a qualifying educational assistance plan. Additional amounts are included in your Form W-2 wage income, unless they are a working condition fringe benefit. This includes principal or interest of any qualified education loan of the employee.
- If you cash in qualified U.S. Savings Bonds to pay for eligible education expenses for yourself, spouse, or your dependent, you may be able to exclude the bond interest from income. Income and other limitations apply.

Coordination of Benefits

You may be able to increase the combined value of an education credit and certain educational assistance if the student chooses to include otherwise tax-free scholarships or fellowship grants in income in the year it is received.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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