

FEDERAL TAX BENEFITS FOR EDUCATION – Tax Year 2006¹

Source: IRS Publication 970 "Tax Benefits for Education"

	Tax Benefit	Annual Limit	Expenses Besides Tuition/Required Fees That Qualify	Education That Qualifies	Other Conditions	Income Range For Phaseout
Scholarships, Fellowships, Grants and Tuition Reductions	Amounts received may not be taxable	None	Course-related Expenses, Books/Fees, Supplies & Equipment	Undergraduate & Graduate K-12	Must be in degree or vocational program Payment of tuition and required fees must be allowed under the grant, etc.	No Phaseout
Hope Credit	Credits can reduce the amount of tax you pay	\$1,650 credit per student	None	First two years of Undergraduate	Can be claimed for only two tax years Must be enrolled at least half-time in a degree program No felony drug convictions	\$45,000-\$55,000 \$90,000-\$110,000 for joint returns
Lifetime Learning Credit	Credits can reduce the amount of tax you pay	\$2,000 credit per family	None	Undergraduate & Graduate	Cannot claim both Hope and Lifetime Learning Credit for same student during same year	\$45,000-\$55,000 \$90,000-\$110,000 for joint returns
Student Loan Interest Reduction²	Can deduct interest paid from taxable income	Up to a \$2,500 deduction	Books/Supplies, Transportation, Room & Board and other necessary expenses	Undergraduate & Graduate	Loan must have been taken out solely for education expenses, but can include consolidation loans Must have been at least half-time student in degree program	\$50,000-\$65,000 \$105,000-\$135,000 for joint returns
Tuition & Fees Deduction	Can deduct expenses paid from taxable income	Up to a \$4,000 deduction)	None	Undergraduate & Graduate	Cannot claim both Tuition & Fees Deduction and Education Credit (Hope or Lifetime Learning) for same student in same year	\$65,000-\$80,000 \$130,000-\$160,000 for joint returns
Coverdell ESA (formerly Education IRA)	Earnings not taxed	\$2,000 contribution per beneficiary	Books/Supplies, Room & Board, Expenses for Special Needs, Payments to QTP	Undergraduate & Graduate K-12	Funds must be distributed by age 30, unless special needs beneficiary Nontaxable distribution limited to qualified education expenses	\$95,000-\$110,000 \$190,000-\$220,000 for joint returns
Qualified Tuition Program (QTP or 529 Plan)²	Earnings not taxed	None	Books/Supplies, Room & Board, Expenses for Special Needs	Undergraduate & Graduate	Nontaxable distribution limited to qualified education expenses	No Phaseout
Early IRA Distribution	No 10% penalty on early distribution	Amount of Qualified Education Expenses	Books/Supplies, Room & Board, Expenses for Special Needs	Undergraduate & Graduate	No penalty on distributions only up to qualified education expenses	No Phaseout
Education Savings Bond Program	Interest not taxed	Amount of Qualified Education Expenses	Payments to ESA or QTP	Undergraduate & Graduate	Applies only to EE bonds issued after 1989 or Series I bonds Nontaxable distribution limited to qualified education expenses	\$63,100-\$78,000 \$94,700-\$124,700 for joint returns
Employer-Provided Education Assistance	Employer benefits not taxed	Up to \$5,250 exclusion	Books/Supplies	Undergraduate & Graduate		No Phaseout