

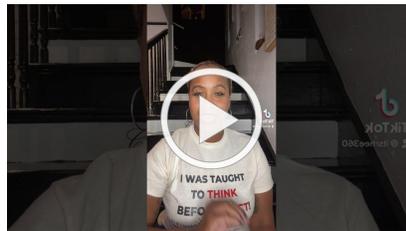


Tax Tip #4

My  
Services



## EDUCATION CREDITS



Are you, your spouse, or any of your dependents in school seeking to receive an AA, BA, Masters, Ph.D., or a certification in a trade??? Well, anyone took higher education classes in 2021, there are two education credits that may assist in paying some of those education costs: the **American Opportunity Credit** or the **Lifetime Learning Credit**. Both may reduce the amount of tax you owe or increase your tax refund.



**The American Opportunity Tax Credit (AOTC)** is a partially refundable tax credit that provides up to \$2,500 per student per year to pay for college. The tax credit is based on up to \$4,000 in eligible higher education expenses, equal to 100% of the first \$2,000 in eligible expenses you spent on tuition, books, equipment, and school fees — but not living expenses or transportation — plus 25% of the next \$2,000, for a total of \$2,500.

- Only available for the first four years at an eligible college or vocational school.
- Forty percent of the AOTC is refundable. That means that you may be able to get up to \$1,000 of the credit as a refund, even if you don't owe any taxes.

- For students earning a degree or other recognized credential.
- For students going to school at least half-time for at least one academic period that started during the tax year.
- For the cost of tuition, books and required fees and supplies.

With the Lifetime Learning Credit (LLC), you can claim 20% of the first \$10,000 you paid toward tuition and fees in 2019, for a maximum of \$2,000. Like the American opportunity tax credit, the lifetime learning credit doesn't count living expenses or transportation as eligible expenses.

## The Lifetime Learning Credit (LLC)

An annual tax credit that can be claimed for postsecondary education expenses such as tuition, fees, books, supplies, and equipment required for a degree program or for courses that help acquire or improve job skills.



- Limited to \$2,000 per tax return, per year, no matter how many students qualify.
- For all years of higher education, including classes for learning or improving job skills.
- Limited to the amount of your taxes.
- For the cost of tuition and required fees, plus books, supplies, and equipment you must buy from the school.
- There is no limit on the number of years you can claim this credit for an eligible student.

For both credits:

One credit per student. You can claim only one type of education credit per student on your federal tax return each year. If more than one student qualifies for a credit in the same year, you can claim a different credit for each student. For example, you can claim the AOTC for one student and claim the LLC for the other student.

Use the IRS interactive app, [Am I Eligible to Claim an Education Credit?](#)

**NOTE:** If your son or daughter is going to college and you claim him or her as a dependent, then you can claim the education credits on your tax return. If your son or daughter is no longer a dependent, then he or she should claim any education credits on his or her own tax return. If you pay the college expenses for someone who is not your dependent, you cannot claim any tax credit.

**Qualified expenses.** You may include qualified expenses to figure your credit. This may include amounts you pay for tuition, fees, and other related expenses for an eligible student.

**Eligible educational institutions.** Eligible schools are all accredited colleges and universities are eligible. Additionally, vocational schools and other post-secondary institutions are also eligible. Basically, if the institution is eligible to participate in federal student aid programs through the US Department of Education, then you may use tuition paid to the school for claiming the Lifetime Learning tax credit.

**Form 1098-T.** In most cases, you (student) should receive Form 1098-T, Tuition Statement, from your school. This form reports your qualified expenses to the IRS and to you. You may notice that the amount shown on the form is different from the amount you actually paid. That's because some of your related costs may not appear on Form 1098-T. For example, the cost of your textbooks may not appear on the form, but you still may be able to claim your textbook costs as part of the credit. Remember, you can only claim an education credit for the qualified expenses that you paid in that same tax year.

**Nonresident alien.** If you are in the U.S. on an F-1 student visa, you usually file your federal tax return as a nonresident alien. You can't claim an education credit if you were a nonresident alien for any part of the tax year unless you elect to be treated as a resident alien for federal tax purposes.

**Income limits.** These credits are subject to income limitations and may be reduced or eliminated, based on your income. If your income exceeds the following phase-out range, you are not eligible to claim the Lifetime Learning tax credit.

## **IRS Data Retrieval Tool & Completing FAFSA**

Make completing your FAFSA as simplistic as possible by utilizing the IRS Data Retrieval Tool. This allows you/your family (aka the "student") and parents to access the IRS tax return information needed to complete the Free Application for Federal Student Aid (FAFSA). Students and parents may transfer the data directly into their FAFSA.

The IRS Data Retrieval Tool (IRS DRT) Electronically Transfers Your Federal Tax Return Information Into Your FAFSA Form.

### **WHY**

- **EASY:** Transfer info with the click of a button.
- **FAST:** Instantly retrieve your information.
- **ACCURATE:** Correctly fill in your information.

### **HOW**

1. Log in to your current FAFSA form or start a new application at [fafsa.gov](https://fafsa.gov).
2. In the finances section of the online form, you will see a "Link to IRS" button if you are eligible to use the IRS DRT.
3. Click the "Link to IRS" button and log in with your FSA ID to be transferred to the IRS to retrieve your info.
4. Once at the IRS site, enter your information exactly as it appears on your federal income tax return and click the "Submit" button.
5. Check the "Transfer My Tax Information into the FAFSA form" box, and click the "Transfer Now" button.
6. You will know that your federal tax return information has been successfully transferred because the words "Transferred from the IRS" will display in place of the IRS information in your FAFSA form.

**If you are eligible to use the IRS Data Retrieval Tool, we highly recommend doing so for the following reasons:**

- It's the easiest way to provide your tax data.
- It's the best way of ensuring that your FAFSA has accurate tax information.
- If your FAFSA is selected for verification, it will be unnecessary for you to provide federal IRS Tax Transcripts
- You will save oodles of time! (We are talking about savings weeks!)

IRS Data is Available:

- After 1-2 weeks of electronically filing your federal taxes
- After 6-8 weeks of filing a paper federal tax return
- Please note: if the taxpayer still owes money for taxes to the IRS, the IRS data will be available ONLY after the balance has been paid.

I often get asked if a child can claim themselves as an “Independent Student”. Well, the Department of Education uses a very rigid set of criteria for determining whether a student is INDEPENDENT for financial aid consideration (which means that the custodial parents’ income and asset information is NOT considered in determining a student’s financial aid, and therefore not required on the FAFSA).

Regardless of how much support a student actually receives from his or her parents, he or she is still considered a DEPENDENT student for financial aid purposes UNLESS at least one of the following criteria is met:

1. For the 2022-23 school year, the student was born before January 1, 1996; or
2. Student is married or separated but not divorced; or
3. Student has a child or children who receive more than half their support from the student; or
4. Student has dependents (other than a child or spouse) who receive more than half their support from the student, and who also live with the student; or
5. Student is enrolled as a graduate or professional student (pursuing a master’s degree or doctoral degree); or
6. Student is a qualified veteran of the U.S. military, or currently serving on active duty in the U.S. armed forces for purposes other than training; or
7. Student is an orphan (both parents deceased) or ward of the court or in foster care at any time after turning age 13, or was a ward of the court until age 18; or
8. Student is/was in legal guardianship; or
9. Student is/was an emancipated minor; or
10. Student was an unaccompanied youth who was homeless or at risk of being; or
11. Student has special and unusual extenuating circumstances that can be documented for his or her college financial aid administrators, who may then request a “dependency override” on the FAFSA application. (Note: Exceptions are granted very rarely and only in extreme cases.) Students should contact the financial aid office at the school they will be attending for additional information.

Many students feel that they should be able to declare INDEPENDENT status because they live on their own, file their own taxes, or receive no support from their parents. Unfortunately, the Department of Education is extremely strict with regard to determining dependency status.

If you are considered a DEPENDENT student (do not meet the criteria listed above) and do not provide your parents’ information on your FAFSA, your application WILL BE REJECTED.

### ***STEP 1: Get a PIN/Federal Student Aid (FSA) ID***

- Your PIN/FSA ID is a user-selected username and password that allows you to:
- Complete and sign your FAFSA electronically
- Check the results of your FAFSA and make corrections to your application online

Getting a PIN:

- You can obtain your free PIN from the Department of Education's PIN website at [pin.ed.gov](http://pin.ed.gov).
- Your parents must request their own separate PIN to use as an electronic signature on the FAFSA.

## **STEP 2: File Your FAFSA Online - [fafsa.ed.gov](https://fafsa.ed.gov)**

Once PIN/FSA ID has been obtained and you have the FAFSA Worksheet, log on to [fafsa.ed.gov](https://fafsa.ed.gov).

When you file your 2021 Federal Tax Return, use the IRS Data Retrieval Tool to transfer your family's income and tax-related information from the IRS directly to your application.

Or, if you initially submit your FAFSA using estimated income information, make sure to revisit the FAFSA website to use the Retrieval Tool to update and correct your application once your taxes are filed.

## **STEP 3: Monitor the Status of Your FAFSA**

After you've filed your form, you can check the status of your application online at [fafsa.ed.gov](https://fafsa.ed.gov), or you can call the [Federal Student Aid Information Center at 800-433-3243](https://www.fafsa.ed.gov) and use their automated response system. St. Edward's should receive the results of your application within two to three days after it has been processed. If you do not receive a response from the Department of education within two weeks of submitting your FAFSA, you should contact the Federal Student Aid Information Center for assistance.

## **Income-Driven Repayment**

Designed to make your student loan debt more manageable by reducing your monthly payment amount.

- Revised Pay As You Earn Repayment Plan (REPAYE)
- Pay As You Earn Repayment Plan (PAYE)
- Income-Based Repayment Plan (IBR)
- Income-Contingent Repayment Plan (ICR Plan)

Learn more about which type of repayment plan would be best for you at: <https://studentaid.gov/app/ibrInstructions.action>

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If you have questions, don't hesitate to call or email me.

In the meantime, have a blessed day!!

**Xo,**

*Syreeta~*

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