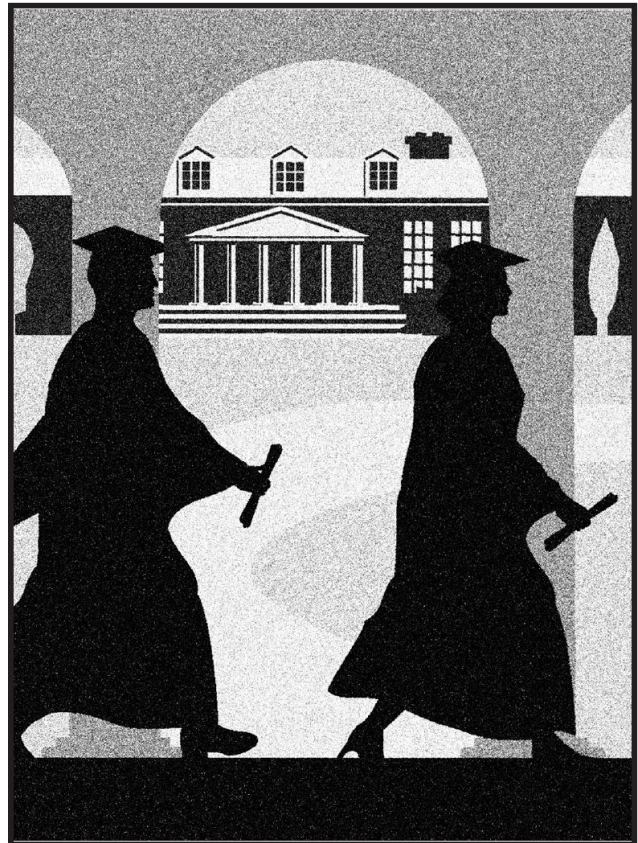


Publication 970

Tax Benefits for Education

For use in preparing **2024** Returns

Volume 1 of 6



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Future Developments

For the latest information about developments related to Pub. 970, such as legislation enacted after it was published, go to [IRS.gov/Pub970](https://www.irs.gov/pub970).

What's New

Student loan interest deduction. For 2024, the amount of your student loan interest deduction is gradually reduced (phased out) if your MAGI is between \$80,000 and \$95,000 (\$165,000 and \$195,000 if you file a joint return). You can't claim the deduction if your

MAGI is \$95,000 or more (\$195,000 or more if you file a joint return). See chapter 4.

Education savings bond program. For 2024, the amount of your education savings bond interest exclusion is gradually reduced (phased out) if your MAGI is between \$96,800 and \$111,800 (\$145,200 and \$175,200 if you file a joint return). You can't exclude any of the interest if your MAGI is \$111,800 or more (\$175,200 or more if you file a joint return). See chapter 9.

Business deduction for work-related education. Generally, if you claim a business deduction for work-related education and you drive your car to and from school, the amount you can deduct for miles driven from January 1, 2024, through December 31, 2024, is 67 cents a mile. See chapter 11.

Reminders

Form 1098-T, Tuition Statement. When figuring an education credit, use only the

amounts you paid and are deemed to have paid during the tax year for qualified education expenses. In most cases, the student should receive Form 1098-T from the eligible educational institution by January 31, 2025. However, the amount on Form 1098-T might be different from the amount you actually paid and are deemed to have paid. In addition, Form 1098-T should give you other information for that institution, such as adjustments made for prior years; the amount of scholarships or grants, reimbursements, or re-funds; and whether the student was enrolled at least half-time or was a graduate student. The eligible educational institution may ask for a completed Form W-9S, Request for Student's or Borrower's Taxpayer Identification Number and Certification, or similar statement to obtain the student's name, address, and taxpayer identification number.

Form 1098-T requirement. To be eligible to claim the American opportunity credit or lifetime learning credit, the law requires a taxpayer (or a dependent) to have received Form 1098-T from an eligible educational institution, whether domestic or foreign.

However, you may claim a credit if the student doesn't receive a Form 1098-T because the student's educational institution isn't required to furnish a Form 1098-T to the student under existing rules (for example, if the student is a qualified nonresident alien, has qualified education expenses paid entirely with scholarships, has qualified education expenses paid under a formal billing arrangement, or is enrolled in courses for which no academic credit is awarded). If a student's educational institution isn't required to provide Form 1098-T to the student, you may claim a credit without Form 1098-T if you otherwise qualify, can demonstrate that you (or a dependent) were enrolled at an

eligible educational institution, and can substantiate the payment of qualified tuition and related expenses.

You may also claim a credit if the student attended an eligible educational institution required to furnish Form 1098-T but the student doesn't receive Form 1098-T before you file your tax return (for example, if the institution is otherwise required to furnish Form 1098-T and doesn't furnish it or refuses to do so) and you take the following required steps: After January 31, 2025, but before you file your 2024 tax return, you or the student must request that the educational institution furnish Form 1098-T. You must fully cooperate with the educational institution's efforts to gather the information needed to furnish Form 1098-T. You must also otherwise qualify for the benefit, be able to demonstrate that you (or a dependent) were enrolled at an eligible educational institution, and

substantiate the payment of qualified tuition and related expenses.

Educational institution's EIN required. To claim the American opportunity credit, you must provide the educational institution's employer identification number (EIN) on your Form 8863. You should be able to obtain this information from Form 1098-T or the educational institution. See chapter 2.

Form 8862 may be required. If your American opportunity credit was denied or reduced for any reason other than a math or clerical error for any tax year beginning after 2015, you must attach a completed Form 8862, Information To Claim Certain Credits After Disallowance, to your tax return for the next year for which you claim the credit. See chapter 2.

Ban on claiming the American opportunity credit. If you claim the American opportunity credit even though you're not eligible, you may be banned from

claiming the credit for 2 or 10 years depending on your conduct. See chapter 2.

Taxpayer identification number (TIN) needed by due date of return. If you haven't been issued a TIN by the due date of your 2024 return (including extensions), you can't claim the American opportunity credit on either your original or an amended 2024 return. Also, the American opportunity credit isn't allowed on either your original or an amended 2024 return for a student who hasn't been issued a TIN by the due date of your return (including extensions). See chapter 2.

Higher education emergency grants.

Emergency financial aid grants under the following are not included in your gross income.

- The CARES Act.
- The Coronavirus Response and Relief Supplemental Appropriations Act, 2021.

- The American Rescue Plan Act of 2021.

Also, for purposes of the American opportunity tax credit (see chapter 2) and lifetime learning credit (see chapter 3), a student does not reduce an amount of qualified tuition and related expenses by the amount of an emergency financial aid grant. For more information, see *Higher Education Emergency Grants Frequently Asked Questions*.

Coordination with Pell grants and other scholarships or fellowship grants. It may benefit you to choose to include otherwise tax-free scholarships or fellowship grants in income. This may increase your education credit and lower your total tax or increase your refund. See *Coordination with Pell grants and other scholarships* in chapter 2 and chapter 3.

Student loan interest deduction. You can't deduct as interest on a student loan any interest paid by your employer after March

27, 2020, and before January 1, 2026, under an educational assistance program. See chapter 4.

Student loan forgiveness. The American Rescue Plan Act of 2021 modified the treatment of student loan forgiveness for discharges in 2021 through 2025. See chapter 5.

Achieving a Better Life Experience (ABLE) account. This is a savings account for individuals with disabilities and their families. Distributions are tax free if used to pay the beneficiary's qualified disability expenses, which may include education expenses. For more information, see Pub. 907, Tax Highlights for Persons With Disabilities.

Estimated tax payments. If you have taxable income from any of your education benefits and the payer doesn't withhold enough income tax, you may need to make estimated tax payments. For more

information, see Pub. 505, Tax Withholding and Estimated Tax.

Employer-provided educational assistance benefits. Employer-provided educational assistance benefits include payments made after March 27, 2020, and before January 1, 2026, for principal or interest on any qualified education loan you incurred for your education. See chapter 10.

Miscellaneous itemized deductions. For tax years beginning after 2017 and before 2026, you no longer deduct work-related education expenses as a miscellaneous itemized deduction subject to a 2%-of-adjusted-gross-income floor. See chapter 11.

Photographs of missing children. The Internal Revenue Service is a proud partner with the *National Center for Missing & Exploited Children® (NCMEC)*. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these

children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

This publication explains tax benefits that may be available to you if you are saving for or paying education costs for yourself or, in many cases, another student who is a member of your immediate family. Most benefits apply only to higher education.

What is in this publication. Chapter 1 explains the tax treatment of various types of educational assistance, including scholarships, fellowship grants, and tuition reductions.

Two tax credits for which you may be eligible are explained in chapter 2 and chapter 3.

These benefits, which reduce the amount of income tax you may have to pay, are:

- The American opportunity credit, and
- The lifetime learning credit.

Nine other types of benefits are explained in chapters 4 through 11. These benefits, which reduce the amount of income tax you may have to pay, are:

- Deduct student loan interest;
- Receive tax-free treatment of a canceled student loan;
- Receive tax-free student loan repayment assistance;
- Establish and contribute to a Coverdell education savings account (ESA), which features tax-free earnings;
- Participate in a qualified tuition program (QTP), which features tax-free earnings;
- Take early distributions from any type of individual retirement arrangement (IRA) for education costs without paying the 10% additional tax on early distributions;
- Cash in savings bonds for education costs without having to pay tax on the interest;

- Receive tax-free education benefits from your employer; and
- Claim a business deduction for work-related education.

Note. You generally can't claim more than one of the benefits described in the list above for the same qualifying education expense.

Comparison table. Some of the features of these benefits are highlighted in the [Appendix](#), later in this publication. This general comparison table may guide you in determining which benefits you may be eligible for and which chapters you may want to read.



When you figure your taxes, you may want to compare these tax benefits so you can choose the method(s) that give(s) you the lowest tax liability. If you qualify, you may find that a combination of credit(s) and deduction(s) gives you the lowest tax.

Analyzing your tax withholding. After you estimate your education tax benefits for the year, you may be able to reduce the amount of your federal income tax withholding. Also, you may want to recheck your withholding during the year if your personal or financial situation changes. For more information, see Pub. 505.

Glossary. In this publication, wherever appropriate, we have tried to use the same or similar terminology when referring to the basic components of each education benefit. Some of the terms used are:

- Qualified education expenses,
- Eligible educational institution, and
- Modified adjusted gross income (MAGI).

Even though the same term, such as “qualified education expenses,” is used to label a basic component of many of the education benefits, the same expenses aren't necessarily allowed for each benefit. For

example, the cost of room and board is a qualified education expense for the QTP, but not for the education savings bond pro-gram.

Many of the terms used in the publication are defined in the glossary near the end of the publication. The glossary isn't intended to be a substitute for reading the chapter on a particular education benefit, but it will give you an overview of how certain terms are used in discussing the different benefits.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or, you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224.

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your

comments and suggestions as we revise our tax forms, instructions, and publications.

Don't send tax questions, tax returns, or payments to the above address.

Getting answers to your tax questions. If you have a tax question not answered by this publication or the *How To Get Tax Help* section at the end of this publication, go to the IRS Interactive Tax Assistant page at [IRS.gov/ Help/ITA](https://www.irs.gov/Help/ITA) where you can find topics by using the search feature or viewing the categories listed.

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as soon as possible. **Don't** resubmit requests you've already sent us. You can get forms and publications faster online.

Useful Items

You may want to see:

Publication

- ☐ **463** Travel, Gift, and Car Expenses
- ☐ **525** Taxable and Nontaxable Income
- ☐ **550** Investment Income and Expenses
- ☐ **590-A** Contributions to Individual Retirement Arrangements
- ☐ **590-B** Distributions from Individual Retirement Arrangements

Form (and Instructions)

- ☐ **1040** U.S. Individual Income Tax Return
- ☐ **1040-NR** U.S. Nonresident Alien Income Tax Return
- ☐ **1040-SR** U.S. Income Tax Return for Seniors
- ☐ **2106** Employee Business Expenses
- ☐ **5329** Additional Taxes on Qualified Plans and Other Tax-Favored Accounts
- ☐ **8815** Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989
- ☐ **8863** Education Credits

See chapter 12 for information about getting these publications and forms.

1.

Scholarships, Fellowship Grants, Grants, and Tuition Reductions

Reminders

Individual retirement arrangements (IRAs). You can set up and make contributions to an IRA if you receive taxable compensation. A scholarship or fellowship grant is generally taxable compensation only if it is shown in box 1 of your Form W-2, Wage and Tax Statement. However, for tax years beginning after 2019, certain non-tuition fellowship and stipend payments not reported to you on Form W-2 are treated as taxable compensation for IRA purposes. These include amounts paid to you to aid you in the pursuit

of graduate or postdoctoral study and included in your gross income under the rules discussed in this chapter. Taxable amounts not reported to you on Form W-2 are generally included in gross income as discussed later under [Reporting Scholarships and Fellowship Grants](#). For more information about IRAs, see Pub. 590-A and Pub. 590-B.

Higher education emergency grants.

Emergency financial aid grants under the following are not included in your gross income.

- The CARES Act.
- The Coronavirus Response and Relief Supplemental Appropriations Act, 2021.
- The American Rescue Plan Act of 2021.

Also, for purposes of the American opportunity credit (see chapter 2) and lifetime learning credit (see chapter 3), a student does not reduce an amount of qualified tuition and related expenses by the

amount of an emergency financial aid grant. For more information, see [Higher Education Emergency Grants Frequently Asked Questions](#) on IRS.gov.

Introduction

This chapter discusses the income tax treatment of various types of educational assistance you may receive if you are studying, teaching, or researching in the United States. The educational assistance can be for a primary or secondary school, a college or university, or a vocational school. Included are discussions of:

- Scholarships;
- Fellowship grants;
- Need-based education grants, such as a Pell grant; and
- Qualified tuition reductions.

Many types of educational assistance are tax free if they meet the requirements discussed here.

Special rules apply to U.S. citizens and resident aliens who have received scholarships or fellowship grants for studying, teaching, or researching abroad. For information about these rules, see Pub. 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad.

Scholarships and Fellowship Grants

A scholarship is generally an amount paid or allowed to, or for the benefit of, a student (whether an undergraduate or a graduate) at an educational institution to aid in the pursuit of their studies.

A fellowship grant is generally an amount paid for the benefit of an individual to aid in the pursuit of study or research.

Amount of scholarship or fellowship grant. The amount of a scholarship or fellowship grant includes the following.

- The value of contributed services and accommodations. This includes such services and accommodations as room (lodging), board (meals), laundry service, and similar services or accommodations that are received by an individual as a part of a scholarship or fellowship grant.
- The amount of tuition, matriculation, and other fees that are paid for or remitted to the student to aid the student in pursuing study or research.
- Any amount received in the nature of a family allowance as a part of a scholarship or fellowship grant.

Tax-Free Scholarships and Fellowship Grants

A scholarship or fellowship grant is tax free (excludable from gross income) **only if** you are a candidate for a degree at an eligible educational institution.



You may be able to increase the combined value of an education credit and certain educational assistance if the student includes some or all of the educational assistance in income in the year it is received. See the examples under Coordination with Pell grants and other scholarships in chapter 2 and chapter 3.

A scholarship or fellowship grant is tax free **only to the extent:**

- It doesn't exceed your qualified education expenses;
- It isn't designated or earmarked for other purposes (such as room and board), and

doesn't require (by its terms) that it can't be used for qualified education expenses; and

- It doesn't represent payment for teaching, research, or other services required as a condition for receiving the scholarship. For exceptions, see [*Payment for services*](#), later.

Use [Worksheet 1-1](#) to figure the amount of a scholarship or fellowship grant you can exclude from gross income.

Candidate for a degree. You are a candidate for a degree if you:

1. Attend a primary or secondary school or are pursuing a degree at a college or university; or
2. Attend an educational institution that:
 - a. Provides a program that is acceptable for full credit toward a bachelor's or higher degree, or

offers a program of training to prepare students for gainful employment in a recognized occupation; and

- b. Is authorized under federal or state law to provide such a program and is accredited by a nationally recognized accreditation agency.

Eligible educational institution. An eligible educational institution is one whose primary function is the presentation of formal instruction and that normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it regularly carries on its educational activities.

Qualified education expenses. For purposes of tax-free scholarships and fellowship grants, these are expenses for:

- Tuition and fees required to enroll at or attend an eligible educational institution; and
- Course-related expenses, such as fees, books, supplies, and equipment that are required for the courses at the eligible educational institution. These items must be required of all students in your course of instruction.

Expenses that don't qualify. Qualified education expenses don't include the cost of:

- Room and board,
- Travel,
- Research,
- Clerical help, or
- Equipment and other expenses that aren't required for enrollment in or attendance at an eligible educational institution.

Payment for services. Generally, you can't exclude from your gross income the part of any scholarship or fellowship grant that represents payment for teaching, research, or other services required as a condition for receiving the scholarship. This applies even if all candidates for a degree must perform the services to receive the degree. However, see *Exceptions* next.

Exceptions. You don't have to treat as payment for services the part of any scholarship or fellowship grant that represents payment for teaching, research, or other services if you receive the amount under:

- The National Health Service Corps Scholarship Program,
- The Armed Forces Health Professions Scholarship and Financial Assistance Program, or

- A comprehensive student work-learning-service program (as defined in section 448(e) of the Higher Education Act of 1965) operated by a work college (as defined in that section).

Example 1. You received a scholarship of \$2,500. The scholarship wasn't received under any of the exceptions mentioned above. As a condition for receiving the scholarship, you must serve as a part-time teaching assistant. Of the \$2,500 scholarship, \$1,000 represents payment for teaching. The provider of your scholarship gives you a Form W-2 showing \$1,000 as income. Your qualified education expenses were at least \$1,500. Assuming that all other conditions are met, the most you can exclude from your gross income is \$1,500. The \$1,000 you received for teaching must be included in your gross income.

Example 2. You are a candidate for a degree at a medical school. You receive a scholarship

(not under any of the exceptions mentioned above) for your medical education and training. The terms of your scholarship require you to perform future services. A substantial penalty applies if you don't comply. The entire amount of your grant is taxable as payment for services in the year it is received.

Athletic Scholarships

An athletic scholarship is tax free only if and to the extent it meets the requirements discussed earlier.

Worksheet 1-1. You can use [Worksheet 1-1](#) to figure the tax-free and taxable parts of your athletic scholarship.

Taxable Scholarships and Fellowship Grants

If and to the extent your scholarship or fellowship grant doesn't meet the requirements described earlier, it is taxable and must be included in gross income. You can use [Worksheet 1-1](#) to figure the tax-free and taxable parts of your scholarship or fellowship grant.

Worksheet 1-1. Taxable Scholarship and Fellowship Grant Income

Keep for Your Records



1.	Enter the total amount of any scholarship or fellowship grant for 2024. See Amount of scholarship or fellowship grant , earlier	1. _____
	<ul style="list-style-type: none">• If you are a degree candidate at an eligible educational institution, go to line 2.• If you aren't a degree candidate at an eligible educational institution, stop here. The entire amount is taxable. For information on how to report this amount on your tax return, see Reporting Scholarships and Fellowship Grants, earlier.	
2.	Enter the amount from line 1 that was for teaching, research, or any other services required as a condition for receiving the scholarship. Don't include amounts received for these items under the National Health Service Corps Scholarship Program, the Armed Forces Health Professions Scholarship and Financial Assistance Program, or a comprehensive student work-learning-service program (as defined in section 448(e) of the Higher Education Act of 1965) operated by a work college (as defined in that section)	2. _____
3.	Subtract line 2 from line 1	3. _____
4.	Enter the amount from line 3 that your scholarship or fellowship grant required you to use for other than qualified education expenses	4. _____
5.	Subtract line 4 from line 3	5. _____
6.	Enter the amount of your qualified education expenses	6. _____
7.	Enter the smaller of line 5 or line 6. This amount is the most you can exclude from your gross income (the tax-free part of the scholarship or fellowship grant)	7. _____
8.	Subtract line 7 from line 5	8. _____
9.	Taxable part. Add lines 2, 4, and 8. See Reporting Scholarships and Fellowship Grants , earlier, for information on how to report this amount on your tax return	9. _____

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Reporting Scholarships and Fellowship Grants

Whether you must report your scholarship or fellowship grant depends on whether you must file a return and whether any part of your scholarship or fellowship grant is taxable.

If your only income is a completely tax-free scholarship or fellowship grant, you don't have to file a tax return and no reporting is necessary. If all or part of your scholarship or fellowship grant is taxable and you are required to file a tax return, report the taxable amount as explained below. You must report the taxable amount whether or not you received a Form W-2. If you receive an incorrect Form W-2, ask the payer for a corrected one.

For information on whether you must file a return, see Pub. 501, Dependents, Standard

Deduction, and Filing Information, or your income tax form instructions.

How To Report

How you report any taxable scholarship or fellowship grant income depends on which return you file.

Form 1040 or 1040-SR. If you file Form 1040 or 1040-SR, include any taxable amount reported to you in box 1 of Form W-2 in the total on line 1a. Include any taxable amount not reported to you in box 1 of Form W-2 on Schedule 1 (Form 1040), line 8r.

Form 1040-NR. If you file Form 1040-NR, report any taxable amount on Schedule 1 (Form 1040), line 8r. Generally, you must report the amount reported to you in box 2 of Form(s) 1042-S, Foreign Person's U.S. Source Income Subject to Withholding. For more information, see the Instructions for Form 1040-NR.

Other Types of Educational Assistance

The following discussions deal with other common types of educational assistance.

Fulbright Grants

A Fulbright grant is generally treated as a scholarship or fellowship grant in figuring how much of the grant is tax free.

Pell Grants and Other Title IV Need-Based Education Grants

These need-based grants are treated as scholarships for purposes of determining their tax treatment. They are tax free to the extent used for qualified education expenses during the period for which a grant is awarded.

Payment to Service Academy Cadets

An appointment to a U.S. military academy isn't a scholarship or fellowship grant.

Payment you receive as a cadet or

midshipman at an armed services academy is pay for personal services and will be reported to you in box 1 of Form W-2. Include this pay in your income in the year you receive it.

Veterans' Benefits

Payments you receive for education, training, or subsistence under any law administered by the Department of Veterans Affairs (VA) are tax free. Don't include these payments as income on your federal tax return.

If you qualify for one or more of the education tax benefits discussed in chapters 2 through 11, you may have to reduce the amount of education expenses qualifying for a specific tax benefit by part or all of your VA payments. This applies only to the part of your VA payments that is required to be used for education expenses.

You may want to visit the Veterans Administration website at www.va.gov/education for specific

information about the various VA benefits for education.

Example. You have returned to college and are receiving two education benefits under the latest GI Bill: (1) a \$1,534 monthly basic housing allowance (BHA) that is directly deposited to your checking account, and (2) \$3,840 paid directly to your college for tuition. Neither of these benefits is taxable and you don't report them on your tax return. You also want to claim an American opportunity credit on your return. Your total tuition charges are \$5,000. To figure the amount of credit, you must first subtract the \$3,840 from your qualified education expenses because this payment under the GI Bill was required to be used for education expenses. You **don't** subtract any amount of the BHA because it was paid to you and its use wasn't restricted.

Qualified Tuition Reduction

If you are allowed to study tuition free or for a reduced rate of tuition, you may not have to pay tax on this benefit. This is called a tuition reduction. You don't have to include a qualified tuition reduction in your income.

A tuition reduction is qualified only if you receive it from, and use it at, an eligible educational institution. You don't have to use the tuition reduction at the eligible educational institution from which you received it. In other words, if you work for an eligible educational institution and the institution arranges for you to take courses at another eligible educational institution without paying any tuition, you may not have to include the value of the free courses in your income.

The rules for determining if a tuition reduction is qualified, and therefore tax free, are

different if the education provided is below the graduate level or is graduate education.

You must include in your income any tuition reduction you receive that is payment for your services.

Eligible educational institution. An eligible educational institution is one that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it regularly carries on its educational activities.

Officers, owners, and highly compensated employees. Qualified tuition reductions apply to officers, owners, or highly compensated employees only if benefits are available to employees on a nondiscriminatory basis. This means that the tuition reduction benefits must be available on substantially the same basis to each member of a group of employees. The group must be defined under a reasonable classification set up by the employer. The classification must not

discriminate in favor of owners, officers, or highly compensated employees.

Payment for services. Generally, you must include in income the part of any qualified tuition reduction that represents payment for teaching, research, or other services by the student required as a condition of receiving the qualified tuition reduction. This applies even if all candidates for a degree must perform the services to receive the degree. However, see *Exceptions* next.

Exceptions. You don't have to include in income the part of any scholarship or fellowship grant that represents payment for teaching, research, or other services if you receive the amount under:

- The National Health Service Corps Scholarship Program,
- The Armed Forces Health Professions Scholarship and Financial Assistance Program, or

- A comprehensive student work-learning-service program (as defined in section 448(e) of the Higher Education Act of 1965) operated by a work college (as defined in that section).

Education Below the Graduate Level

If you receive a tuition reduction for education below the graduate level (including primary and secondary school), it is a qualified tuition reduction, and therefore tax free, only if your relationship to the educational institution providing the benefit is described below.

1. You are an employee of the eligible educational institution.
2. You were an employee of the eligible educational institution, but you retired or left on disability.
3. You are the surviving spouse of an individual who died while an employee

of the eligible educational institution or who retired or left on disability.

4. You are the dependent child or spouse of an individual described in (1) through (3) above.

Child of deceased parents. For purposes of the qualified tuition reduction, a child is a dependent child if the child is under age 25 and both parents have died.

Child of divorced parents. For purposes of the qualified tuition reduction, a dependent child of divorced parents is treated as the dependent of both parents.

Graduate Education

A tuition reduction you receive for graduate education is qualified, and therefore tax free, if both of the following requirements are met.

- It is provided by an eligible educational institution.

- You are a graduate student who performs teaching or research activities for the educational institution.

You must include in income any other tuition reductions for graduate education that you receive.

How To Report

Any tuition reduction that is taxable should be included as wages in box 1 of your Form W-2. Report the amount from box 1 of Form W-2 on Form 1040 or 1040-SR, line 1a.

2.

American Opportunity Credit

Reminders

Educational institution's EIN required. To claim the American opportunity credit, you must provide the educational institution's employer identification number (EIN) on your Form 8863. You should be able to obtain this

information from Form 1098-T or the educational institution.

Form 8862 may be required. If your American opportunity credit was denied or reduced for any reason other than a math or clerical error for any tax year beginning after 2015, you must attach a completed Form 8862, Information To Claim Certain Credits After Disallowance, to your tax return for the next year for which you claim the credit. See Form 8862 and its instructions for details.

Form 1098-T requirement. To be eligible to claim the American opportunity credit, the law requires a taxpayer (or a dependent) to have received Form 1098-T, Tuition Statement, from an eligible educational institution, whether domestic or foreign.

However, you may claim the credit if the student doesn't receive a Form 1098-T because the student's educational institution isn't required to furnish a Form 1098-T to the student under existing rules (for example, if

the student is a qualified nonresident alien, has qualified education expenses paid entirely with scholarships, has qualified education expenses paid under a formal billing arrangement, or is enrolled in courses for which no academic credit is awarded). If a student's educational institution isn't required to provide a Form 1098-T to the student, you may claim the credit without a Form 1098-T if you otherwise qualify, can demonstrate that you (or a dependent) were enrolled at an eligible educational institution, and can substantiate the payment of qualified tuition and related expenses.

You may also claim a credit if the student attended an eligible educational institution required to furnish Form 1098-T but the student doesn't receive Form 1098-T before you file your tax return (for example, if the institution is otherwise required to furnish the Form 1098-T and doesn't furnish it or refuses to do so) and you take the following required

steps: After January 31, 2025, but before you file your 2024 tax return, you or the student must request that the educational institution furnish a Form 1098-T. You must fully cooperate with the educational institution's efforts to gather the information needed to furnish the Form 1098-T. You must also otherwise qualify for the benefit, be able to demonstrate that you (or a dependent) were enrolled at an eligible educational institution, and substantiate the payment of qualified tuition and related expenses.

Ban on claiming the American opportunity credit. If you claim the American opportunity credit even though you're not eligible, you may be banned from claiming the credit for 2 or 10 years depending on your conduct. See *Caution* under *Introduction* below.

Taxpayer identification number (TIN) needed by due date of return. If you haven't been issued a TIN by the due date of

your 2024 return (including extensions), you can't claim the American opportunity credit on either your original or an amended 2024 return. Also, the American opportunity credit isn't allowed on either your original or an amended 2024 return for a student who hasn't been issued a TIN by the due date of your return (including extensions).

Introduction

For 2024, there are two tax credits available to help you offset the costs of higher education by reducing the amount of your income tax. They are the American opportunity credit (this chapter) and the lifetime learning credit ([chapter 3](#)).

This chapter explains:

- Who can claim the American opportunity credit,
- What expenses qualify for the credit,
- Who is an eligible student,

- Who can claim a dependent's expenses,
- How to figure the credit,
- How to claim the credit, and
- When the credit must be repaid.

What is the tax benefit of the American opportunity credit? For 2024, you may be able to claim a credit of up to \$2,500 for adjusted qualified education expenses paid for each student who qualifies for the American opportunity credit.

A tax credit reduces the amount of income tax you may have to pay. Unlike a deduction, which reduces the amount of income subject to tax, a credit directly reduces the tax itself. Forty percent of the American opportunity credit may be refundable. This means that if the refundable portion of your credit is more than your tax, the excess will be refunded to you.

Your allowable American opportunity credit may be limited by the amount of your income. Also, the nonrefundable part of the credit may be limited by the amount of your tax.

Overview of the American opportunity credit for 2024. See [Table 2-1](#) for the basics of this credit. The details are discussed in this chapter.

Can you claim more than one education credit this year? For each student, you can elect for any year only one of the credits. For example, if you elect to claim the American opportunity credit for a dependent on your 2024 tax return, you can't use that same dependent's qualified education expenses to figure the lifetime learning credit for 2024.

If you pay qualified education expenses for more than one student in the same year, you can choose to claim the American opportunity credit on a per-student, per-year basis. If you pay qualified education expenses for a student (or students) for whom you don't

claim the American opportunity credit, you can use the adjusted qualified education expenses of that student (or those students) in figuring your lifetime learning credit. This means that, for example, you can claim the American opportunity credit for one student and the lifetime learning credit for another student in the same year.

Differences between the American opportunity and lifetime learning credits.

There are several differences between these two credits. For example, you can claim the American opportunity credit based on the same student's expenses for no more than 4 tax years. However, there is no limit on the number of years for which you can claim a lifetime learning credit based on the same student's expenses. The differences between these credits are shown in the [Appendix](#) near the end of this publication.



If you claim the American opportunity credit for any student, you can choose between using that student's adjusted qualified education expenses for the American opportunity credit or the lifetime learning credit. If you have the choice, the American opportunity credit will always be greater than the lifetime learning credit.

Form 8862 may be required. If your American opportunity credit was denied or reduced for any reason other than a math or clerical error for any tax year beginning after 2015, you must attach a completed Form 8862 to your tax return for the next tax year for which you claim the credit. See Form 8862 and its instructions for details.



Don't claim the American opportunity credit for 2 years after there was a final determination that your claim was due to reckless or intentional disregard of the rules, or 10 years after there was a final

determination that your claim was due to fraud.

Table 2-1. Overview of the American Opportunity Credit for 2024

Maximum credit	Up to \$2,500 credit per eligible student
Limit on modified adjusted gross income (MAGI)	\$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying surviving spouse
Refundable or nonrefundable	40% of credit may be refundable; the rest is nonrefundable
Number of years of postsecondary education	Available ONLY if the student had not completed the first 4 years of postsecondary education before 2024 (generally, the freshman through senior

	years, determined by the eligible educational institution, not including academic credit awarded solely because of the student's performance on proficiency examinations)
Number of tax years credit available	Available ONLY for 4 tax years per eligible student
Type of program required	Student must be pursuing a program leading to a degree or other recognized education credential
Number of courses	Student must be enrolled at least half-time for at least one academic period that begins during 2024 (or the first 3 months of 2025 if the

	qualified expenses were paid in 2024)
Felony drug conviction	As of the end of 2024, the student had not been convicted of a felony for possessing or distributing a controlled substance
Qualified expenses	Tuition, required enrollment fees, and course materials that the student needs for a course of study whether or not the materials are bought at the educational institution as a condition of enrollment or attendance
Payments for academic periods	Payments made in 2024 for academic periods beginning in 2024 or beginning in the first 3 months of 2025

TIN needed by filing due date	Filers and students must have been issued a TIN by the due date of their 2024 return (including extensions)
Educational institution's EIN	You must provide the educational institution's employer identification number (EIN) on your Form 8863

Can You Claim the Credit?

The following rules will help you determine if you are eligible to claim the American opportunity credit on your tax return.

Who Can Claim the Credit?

Generally, you can claim the American opportunity credit if all three of the following requirements are met.

- You pay qualified education expenses of higher education.
- You pay the education expenses for an eligible student.
- The eligible student is either yourself, your spouse, or a dependent you claim on your tax return.

Note. Qualified education expenses paid by a dependent you claim on your tax return, or by a third party for that dependent, are considered paid by you.

Student qualifications. Generally, you can claim the American opportunity credit for a student only if **all** of the following four requirements are met.

1. As of the beginning of 2024, the student had not completed the first 4 years of postsecondary education (generally, the freshman through senior years of college), as determined by the eligible educational institution.

For this purpose, don't include academic credit awarded solely because of the student's performance on proficiency examinations.

2. The American opportunity credit has not been claimed by you or anyone else (see below) for this student for any 4 tax years before 2024. If the American opportunity credit has been claimed for this student for any 3 or fewer tax years before 2024, this requirement is met.
3. For at least one academic period beginning (or treated as beginning) in 2024, the student both:
 - a. Was enrolled in a program that leads to a degree, certificate, or other recognized educational credential; and

- b. Carried at least one-half the normal full-time workload for their course of study.

The standard for what is half of the normal full-time workload is determined by each eligible educational institution. However, the standard may not be lower than any of those established by the U.S. Department of Education under the Higher Education Act of 1965.

For 2024, treat an academic period beginning in the first 3 months of 2025 as if it began in 2024 if qualified education expenses for the student were paid in 2024 for that academic period. See [Prepaid expenses](#), later.

- 4. As of the end of 2024, the student had not been convicted of a federal or

state felony for possessing or distributing a controlled substance.

Example 1. Sharon was eligible for the American opportunity credit for 2018, 2019, 2021, and 2023. Sharon's parents claimed the American opportunity credit for Sharon on their 2018, 2019, and 2021 tax returns. Sharon claimed the American opportunity credit on her 2023 tax return. The American opportunity credit has been claimed for Sharon for 4 tax years before 2024. Therefore, the American opportunity credit **can't** be claimed for Sharon for 2024. If Sharon were to file Form 8863 for 2024, the box on Part III, line 23, should be checked "Yes" and only the lifetime learning credit would be able to be claimed.

Example 2. Wilbert was eligible for the American opportunity credit for 2020, 2021, 2022, and 2024. Wilbert's parents claimed the American opportunity credit for Wilbert on their tax returns for 2020, 2021, and 2022.

No one claimed an American opportunity credit for Wilbert for any other tax year. The American opportunity credit has been claimed for Wilbert for only 3 tax years before 2024. Therefore, Wilbert meets the second requirement to be eligible for the American opportunity credit. If Wilbert were to file Form 8863 for 2024, the box on Part III, line 23, should be checked "No." If Wilbert meets all of the other requirements, he is eligible for the American opportunity credit.

Example 3. Glenda enrolls on a full-time basis in a degree program for the 2025 spring semester, which begins in January 2025. Glenda pays the tuition for the 2025 spring semester in December 2024. Because the tuition Glenda paid in 2024 relates to an academic period that begins in the first 3 months of 2025, the eligibility to claim an American opportunity credit in 2024 is determined as if the 2025 spring semester

began in 2024. Therefore, Glenda satisfies this third requirement.



If the requirements above aren't met for any student, you can't claim the American opportunity credit for that student. You may be able to claim the lifetime learning credit for part or all of that student's qualified education expenses instead.

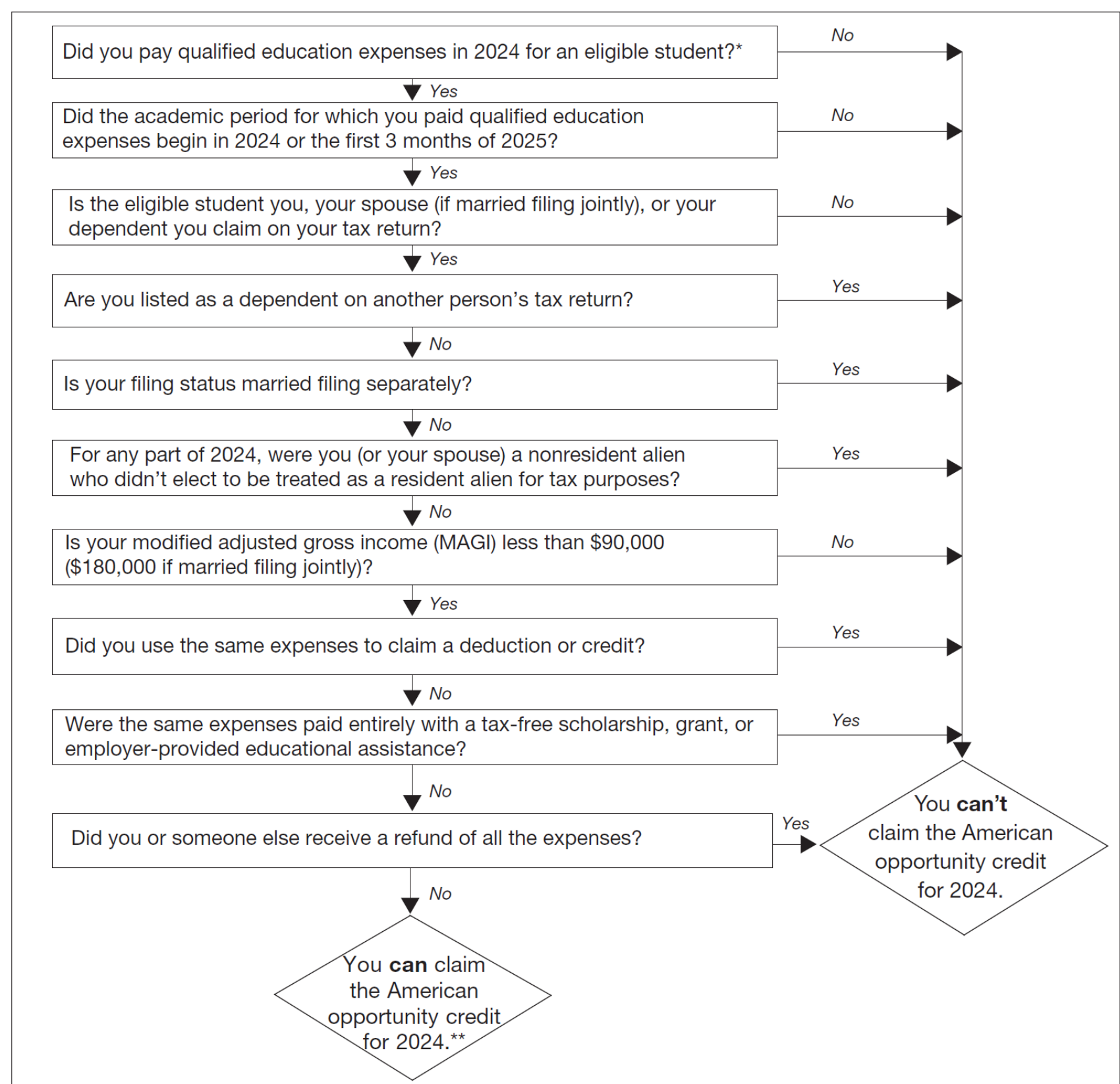
“Qualified education expenses” are defined later under [Qualified Education Expenses](#).

“Eligible students” are defined later under [Who Is an Eligible Student](#). A dependent you claim on your tax return is defined later under [Who Can Claim a Dependent's Expenses](#).

You may find [Figure 2-1](#) helpful in determining if you can claim an American opportunity credit on your tax return.

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Figure 2-1. Can You Claim the American Opportunity Credit for 2024?



*Qualified education expenses paid by a dependent you claim on your tax return, or by a third party for that dependent, are considered paid by you.

**Your education credits may be limited to your tax liability minus certain credits. See Form 8863 for more details.

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Who Can't Claim the Credit?

You can't claim the American opportunity credit for 2024 if any of the following apply.

- Your filing status is married filing separately.
- You are claimed as a dependent on another person's tax return, such as your parent's return. See [*Who Can Claim a Dependent's Expenses*](#), later.
- Your modified adjusted gross income (MAGI) is \$90,000 or more (\$180,000 or more if married filing jointly). MAGI is explained later under [*Effect of the Amount of Your Income on the Amount of Your Credit*](#).
- You (or your spouse) were a nonresident alien for any part of 2024 and the nonresident alien didn't elect to be treated as a resident alien for tax purposes. More information on nonresident aliens can be

found in Pub. 519, U.S. Tax Guide for Aliens.

- You weren't issued an SSN (or ITIN) by the due date of your 2024 return (including extensions). You can't claim the American opportunity credit on either your original or an amended 2024 return. Also, you can't claim this credit on your original or an amended 2024 return for a student who wasn't issued an SSN, ATIN, or ITIN by the due date of your return (including extensions). If an ATIN or ITIN is applied for on or before the due date of a 2024 return (including extensions) and the IRS issues an ATIN or ITIN as a result of the application, the IRS will consider the ATIN or ITIN as issued on or before the due date of the return.

What Expenses Qualify?

The American opportunity credit is based on adjusted qualified education expenses you

pay for yourself, your spouse, or a dependent you claim on your tax return. Generally, the credit is allowed for adjusted qualified education expenses paid in 2024 for an academic period beginning in 2024 or beginning in the first 3 months of 2025.

For example, if you paid \$1,500 in December 2024 for qualified tuition for the spring 2025 semester beginning January 2025, you can use that \$1,500 in figuring your 2024 credit.

Academic period. An academic period includes a semester, trimester, quarter, or other period of study (such as a summer school session) as reasonably determined by an educational institution. If an educational institution uses credit hours or clock hours and doesn't have academic terms, each payment period can be treated as an academic period.

Paid with borrowed funds. You can claim an American opportunity credit for qualified education expenses paid with the proceeds of

a loan. Use the expenses to figure the American opportunity credit for the year in which the expenses are paid, not the year in which the loan is repaid. Treat loan payments sent directly to the educational institution as paid on the date the institution credits the student's account.

Student withdraws from class(es). You can claim an American opportunity credit for qualified education expenses not refunded when a student withdraws.

Qualified Education Expenses

For purposes of the American opportunity credit, qualified education expenses are tuition and certain related expenses required for enrollment or attendance at an eligible educational institution.

Eligible educational institution. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible

to participate in a student aid program administered by the U.S. Department of Education. Virtually all accredited public, nonprofit, and proprietary (privately owned profit-making) postsecondary institutions meet this definition.

An eligible educational institution also includes certain educational institutions located outside the United States that are eligible to participate in a student aid program administered by the U.S. Department of Education.



The educational institution should be able to tell you if it is an eligible educational institution.

Related expenses. Student activity fees are included in qualified education expenses only if the fees must be paid to the institution as a condition of enrollment or attendance.

However, expenses for books, supplies, and equipment needed for a course of study are

included in qualified education expenses whether or not the materials are purchased from the educational institution.

Prepaid expenses. Qualified education expenses paid in 2024 for an academic period that begins in the first 3 months of 2025 can be used in figuring an education credit for 2024 only. See [Academic period](#), earlier. For example, if you pay \$2,000 in December 2024 for qualified tuition for the 2025 winter quarter that begins in January 2025, you can use that \$2,000 in figuring an education credit for 2024 only (if you meet all the other requirements).



You can't use any amount you paid in 2023 or 2025 to figure the qualified education expenses you use to figure your 2024 education credit(s).

In the following examples, assume that each student is an eligible student at an eligible educational institution.

Example 1. Jefferson is a sophomore in University V's degree program in dentistry. This year, in addition to tuition, there is a requirement to pay a fee to the university for the rental of the dental equipment used in this program. Because the equipment rental is needed for this course of study, Jefferson's equipment rental fee is a qualified expense.

Example 2. Grace and William, both first-year students at College W, are required to have certain books and other reading materials to use in their mandatory first-year classes. The college has no policy about how students should obtain these materials, but any student who purchases them from College W's bookstore will receive a bill directly from the college. William bought the books from a friend; Grace bought the books at College W's bookstore. Both are qualified education expenses for the American opportunity credit.

Example 3. When Kelly enrolled at College X for the freshman year, the school required payment of a separate student activity fee in addition to the tuition. This activity fee is required of all students, and is used solely to fund on-campus organizations and activities run by students, such as the student newspaper and the student government. No portion of the fee covers personal expenses. Although labeled as a student activity fee, the fee is required for Kelly's enrollment and attendance at College X and is a qualified expense.

No Double Benefit Allowed

You can't do any of the following.

- Deduct higher education expenses on your income tax return (as, for example, a business expense) and also claim an American opportunity credit based on those same expenses.

- Claim an American opportunity credit for any student and use any of that student's expenses in figuring your lifetime learning credit.
- Figure the tax-free portion of a distribution from a Coverdell education savings account (ESA) or qualified tuition program (QTP) using the same expenses you used to figure the American opportunity credit. See [Coordination With American Opportunity and Lifetime Learning Credits](#) in chapter 6 and [Coordination With American Opportunity and Lifetime Learning Credits](#) in chapter 7.
- Claim a credit based on qualified education expenses paid with tax-free educational assistance, such as a scholarship, grant, or assistance provided by an employer. See *Adjustments to Qualified Education Expenses* next.

Adjustments to Qualified Education Expenses

For each student, reduce the qualified education expenses paid by or on behalf of that student under the following rules. The result is the amount of adjusted qualified education expenses for each student.

Tax-free educational assistance. For tax-free educational assistance received in 2024, reduce the qualified educational expenses for each academic period by the amount of tax-free educational assistance allocable to that academic period. See [Academic period](#), earlier.

Some tax-free educational assistance received after 2024 may be treated as a refund of qualified education expenses paid in 2024. This tax-free educational assistance is any tax-free educational assistance received by you or anyone else after 2024 for qualified education expenses paid on behalf of a

student in 2024 (or attributable to enrollment at an eligible educational institution during 2024).

If this tax-free educational assistance is received after 2024 but before you file your 2024 income tax return, see [*Refunds received after 2024 but before your income tax return is filed*](#), later. If this tax-free educational assistance is received after 2024 and after you file your 2024 income tax return, see [*Refunds received after 2024 and after your income tax return is filed*](#), later.

Tax-free educational assistance includes:

- The tax-free parts of scholarships and fellowship grants (see [*Tax-Free Scholarships and Fellowship Grants*](#) in chapter 1);
- The tax-free part of Pell grants (see [*Pell Grants and Other Title IV Need-Based Education Grants*](#) in chapter 1);

- Employer-provided educational assistance (see [chapter 10](#));
- Veterans' educational assistance (see [Veterans' Benefits](#) in chapter 1); and
- Any other nontaxable (tax-free) payments (other than gifts or inheritances) received as educational assistance.

Generally, any scholarship or fellowship grant is treated as tax free. However, a scholarship or fellowship grant isn't treated as tax free to the extent the student includes it in gross income (the student may or may not be required to file a tax return for the year the scholarship or fellowship grant is received) and either of the following is true.

- The scholarship or fellowship grant (or any part of it) **must** be applied (by its terms) to expenses (such as room and board) other than qualified education expenses as defined in [Qualified education expenses](#) in chapter 1.

- The scholarship or fellowship grant (or any part of it) **may** be applied (by its terms) to expenses (such as room and board) other than qualified education expenses as defined in [Qualified education expenses](#) in chapter 1.



A student can't choose to include in income a scholarship or fellowship grant provided by an Indian tribal government that is excluded from income under the Tribal General Welfare Exclusion Act of 2014 or benefits provided by an educational program described in Revenue Procedure 2014-35, section 5.02(2)(b) (ii), available at [IRS.gov/irb/2014-26_IRB#RP-2014-35](https://www.irs.gov/irb/2014-26_IRB#RP-2014-35).



You may be able to increase the combined value of an education credit if the student includes some or all of a scholarship or fellowship grant in income in the year it is received. For

examples, see [Coordination with Pell grants and other scholarships](#), later.

Refunds. A refund of qualified education expenses may reduce adjusted qualified education expenses for the tax year or require repayment (recapture) of a credit claimed in an earlier year. Some tax-free educational assistance received after 2024 may be treated as a refund. See [Tax-free educational assistance](#), earlier.

Refunds received in 2024. For each student, figure the adjusted qualified education expenses for 2024 by adding all the qualified education expenses for 2024 and subtracting any refunds of those expenses received from the eligible educational institution during 2024.

Refunds received after 2024 but before your income tax return is filed. If anyone receives a refund after 2024 of qualified education expenses paid on behalf of a

student in 2024 and the refund is paid before you file an income tax return for 2024, the amount of qualified education expenses for 2024 is reduced by the amount of the refund.

Refunds received after 2024 and after your income tax return is filed. If anyone receives a refund after 2024 of qualified education expenses paid on behalf of a student in 2024 and the refund is paid after you file an income tax return for 2024, you may need to repay some or all of the credit. See *Credit recapture* next.

Credit recapture. If any tax-free educational assistance for the qualified education expenses paid in 2024, or any refund of your qualified education expenses paid in 2024, is received after you file your 2024 income tax return, you must recapture (repay) any excess credit. You do this by refiguring the amount of your adjusted qualified education expenses for 2024 by reducing the expenses by the amount of the refund or tax-free

educational assistance. You then refigure your education credit(s) for 2024 and figure the amount by which your 2024 tax liability would have increased if you claimed the refigured credit(s). Include that amount as an additional tax for the year the refund or tax-free assistance was received.

Example. You paid \$7,000 tuition and fees in August 2024, and your child began college in September 2024. You filed your 2024 tax return on February 17, 2025, and claimed an American opportunity credit of \$2,500. After you filed your return, you received a refund of \$4,000. You must refigure your 2024 American opportunity credit using \$3,000 of qualified education expenses instead of \$7,000. The refigured credit is \$2,250. The increase to your tax liability is \$250. Include the difference of \$250 as additional tax on your 2025 tax return. See the instructions for your 2025 income tax return to determine where to include this tax.



If you pay qualified education expenses in both 2024 and 2025 for an academic period that begins in the first 3 months of 2025 and you receive tax-free educational assistance, or a refund, as described above, you may choose to reduce your qualified education expenses for 2025 instead of reducing your expenses for 2024.

Amounts that don't reduce qualified education expenses. Don't reduce qualified education expenses by amounts paid with funds the student receives as:

- Payment for services, such as wages;
- A loan;
- A gift;
- An inheritance; or
- A withdrawal from the student's personal savings.

Don't reduce the qualified education expenses by any scholarship or fellowship grant

reported as income on the student's tax return in the following situations.

- The use of the money is restricted, by the terms of the scholarship or fellowship grant, to costs of attendance (such as room and board) other than qualified education expenses as defined in [Qualified education expenses](#) in chapter 1.
- The use of the money isn't restricted.

Example 1. Joan paid \$3,000 for tuition and \$5,000 for room and board at University X. The university did not require payment of any fees in addition to the tuition in order to enroll in or attend classes. To help pay these costs, Joan was awarded a \$2,000 scholarship and a \$4,000 student loan. The terms of the scholarship state that it can be used to pay any of Joan's college expenses.

University X applies the \$2,000 scholarship against Joan's \$8,000 total bill, and Joan pays the \$6,000 balance of the bill from University

X with a combination of the student loan and personal savings. Joan doesn't report any portion of the scholarship as income on the tax return.

In figuring the amount of either education credit (American opportunity or lifetime learning), Joan must reduce the qualified education expenses by the amount of the scholarship (\$2,000) because the entire scholarship was excluded from the reported income on Joan's tax return. The student loan isn't tax-free educational assistance, so the qualified expenses don't need to be reduced by any part of the loan proceeds. Joan is treated as having paid

\$1,000 in qualified education expenses (\$3,000 tuition – \$2,000 scholarship).

Example 2. The facts are the same as in *Example 1*, except that Joan reports the entire scholarship as income on the tax return. Because Joan reported the entire

\$2,000 scholarship as income, the qualified education expenses don't need to be reduced. Joan is treated as having paid \$3,000 in qualified education expenses.

Coordination with Pell grants and other scholarships. You may be able to increase your American opportunity credit when the student (you, your spouse, or your dependent) includes certain scholarships or fellowship grants in the student's gross income. Your credit may increase only if the amount of the student's qualified education expenses minus the total amount of scholarships and fellowship grants is less than \$4,000. If this situation applies, consider including some or all of the scholarship or fellowship grant in the student's income in order to treat the included amount as paying nonqualified expenses instead of qualified education expenses. Nonqualified expenses are expenses such as room and board that

aren't qualified education expenses such as tuition and related fees.

Scholarships and fellowship grants that the student includes in income don't reduce the student's qualified education expenses available to figure your American opportunity credit. Thus, including enough scholarship or fellowship grant in the student's income to report up to \$4,000 in qualified education expenses for your American opportunity credit may increase the credit by enough to increase your tax refund or reduce the amount of tax you owe even considering any increased tax liability from the additional income. However, the increase in tax liability as well as the loss of other tax credits may be greater than the additional American opportunity credit and may cause your tax refund to decrease or the amount of tax you owe to increase. Your specific circumstances will determine what amount, if any, of scholarship or fellowship grant to include in income to maximize your

tax refund or minimize the amount of tax you owe.

The scholarship or fellowship grant must be one that may qualify as a tax-free scholarship under the rules discussed in [chapter 1](#). Also, the scholarship or fellowship grant must be one that may (by its terms) be used for nonqualified expenses. Finally, the amount of the scholarship or fellowship grant that is applied to nonqualified expenses can't exceed the amount of the student's actual nonqualified expenses that are paid in the tax year. This amount may differ from the student's living expenses estimated by the student's school in figuring the official cost of attendance under student aid rules.