



Tax Reduction Letter

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Internal Revenue Code Section 25A(f)

Hope and Lifetime Learning Credits

(a) Allowance of credit.

In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year the amount equal to the sum of-

- (1) the Hope Scholarship Credit, plus
- (2) the Lifetime Learning Credit.

(b) Hope Scholarship Credit.

(1) Per student credit.

In the case of any eligible student for whom an election is in effect under this section for any taxable year, the Hope Scholarship Credit is an amount equal to the sum of-

- (A) 100 percent of so much of the qualified tuition and related expenses paid by the taxpayer during the taxable year (for education furnished to the eligible student during any academic period beginning in such taxable year) as does not exceed \$1,000, plus
- (B) 50 percent of such expenses so paid as exceeds \$1,000 but does not exceed the applicable limit.

(2) Limitations applicable to Hope Scholarship Credit.

- (A) Credit allowed only for 2 taxable years. An election to have this section apply with respect to any eligible student for purposes of the Hope Scholarship Credit under subsection (a)(1) may not be made for any taxable year if such an election (by the taxpayer or any other individual) is in effect with respect to such student for any 2 prior taxable years.
- (B) Credit allowed for year only if individual is at least 1/2 time student for portion of year. The Hope Scholarship Credit under subsection (a)(1) shall not be allowed for a taxable year with respect to the qualified tuition and related expenses of an individual unless such individual is an eligible student for at least one academic period which begins during such year.
- (C) Credit allowed only for first 2 years of postsecondary education. The Hope Scholarship Credit under subsection (a)(1) shall not be allowed for a taxable year with respect to the qualified tuition and related expenses of an eligible student if

the student has completed (before the beginning of such taxable year) the first 2 years of postsecondary education at an eligible educational institution.

(D) Denial of credit if student convicted of a felony drug offense. The Hope Scholarship Credit under subsection (a)(1) shall not be allowed for qualified tuition and related expenses for the enrollment or attendance of a student for any academic period if such student has been convicted of a Federal or State felony offense consisting of the possession or distribution of a controlled substance before the end of the taxable year with or within which such period ends.

(3) Eligible student.

For purposes of this subsection , the term "eligible student" means, with respect to any academic period, a student who-

(A) meets the requirements of section 484(a)(1) of the Higher Education Act of 1965 (20 U.S.C. 1091(a)(1)), as in effect on the date of the enactment of this section , and

(B) is carrying at least 1/2 the normal full-time work load for the course of study the student is pursuing.

(4) Applicable limit.

For purposes of paragraph (1)(B) , the applicable limit for any taxable year is an amount equal to 2 times the dollar amount in effect under paragraph (1)(A) for such taxable year.

(c) Lifetime Learning Credit.

(1) Per taxpayer credit.

The Lifetime Learning Credit for any taxpayer for any taxable year is an amount equal to 20 percent of so much of the qualified tuition and related expenses paid by the taxpayer during the taxable year (for education furnished during any academic period beginning in such taxable year) as does not exceed \$10,000 (\$5,000 in the case of taxable years beginning before January 1, 2003).

(2) Special rules for determining expenses.

(A) Coordination with Hope Scholarship. The qualified tuition and related expenses with respect to an individual who is an eligible student for whom a Hope Scholarship Credit under subsection (a)(1) is allowed for the taxable year shall not be taken into account under this subsection .

(B) Expenses eligible for Lifetime Learning Credit. For purposes of paragraph (1) , qualified tuition and related expenses shall include expenses described in subsection (f)(1) with respect to any course of instruction at an eligible educational institution to acquire or improve job skills of the individual.

(d) Limitation based on modified adjusted gross income.

(1) In general.

The amount which would (but for this subsection) be taken into account under subsection (a) for the taxable year shall be reduced (but not below zero) by the amount determined under paragraph (2) .

(2) Amount of reduction.

The amount determined under this paragraph is the amount which bears the same ratio to the amount which would be so taken into account as-

(A) the excess of-

(i) the taxpayer's modified adjusted gross income for such taxable year, over

(ii) \$40,000 (\$80,000 in the case of a joint return), bears to

(B) \$10,000 (\$20,000 in the case of a joint return).

(3) Modified adjusted gross income.

The term "modified adjusted gross income" means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911 , 931 , or 933 .

(e) Election not to have section apply.

A taxpayer may elect not to have this section apply with respect to the qualified tuition and related expenses of an individual for any taxable year.

 (f) Definitions.

For purposes of this section -

(1) Qualified tuition and related expenses.

(A) In general. The term "qualified tuition and related expenses" means tuition and fees required for the enrollment or attendance of-

(i) the taxpayer,

(ii) the taxpayer's spouse, or

(iii) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151 ,

at an eligible educational institution for courses of instruction of such individual at such institution.

(B) Exception for education involving sports, etc. Such term does not include expenses with respect to any course or other education involving sports, games, or hobbies, unless such course or other education is part of the individual's degree program.

(C) Exception for nonacademic fees. Such term does not include student activity fees, athletic fees, insurance expenses, or other expenses unrelated to an individual's academic course of instruction.

(2) Eligible educational institution.

The term "eligible educational institution" means an institution-

(A) which is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this section , and

(B) which is eligible to participate in a program under title IV of such Act.

(g) Special rules.

(1) Identification requirement.

No credit shall be allowed under subsection (a) to a taxpayer with respect to the qualified tuition and related expenses of an individual unless the taxpayer includes the name and taxpayer identification number of such individual on the return of tax for the taxable year.

(2) Adjustment for certain scholarships, etc.

The amount of qualified tuition and related expenses otherwise taken into account under subsection (a) with respect to an individual for an academic period shall be reduced (before the application of subsections (b) , (c) and (d)) by the sum of any amounts paid for the benefit of such individual which are allocable to such period as-

(A) a qualified scholarship which is excludable from gross income under section 117 ,

(B) an educational assistance allowance under chapter 30, 31, 32, 34, or 35 of title 38, United States Code, or under chapter 1606 of title 10, United States Code, and

(C) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for such individual's educational expenses, or attributable to such individual's enrollment at an eligible educational institution, which is excludable from gross income under any law of the United States.

(3) Treatment of expenses paid by dependent.

If a deduction under section 151 with respect to an individual is allowed to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins-

(A) no credit shall be allowed under subsection (a) to such individual for such individual's taxable year,

(B) qualified tuition and related expenses paid by such individual during such individual's taxable year shall be treated for purposes of this section as paid by such other taxpayer, and

(C) a statement described in paragraph (8) and received by such individual shall be treated as received by the taxpayer.

(4) Treatment of certain prepayments.

If qualified tuition and related expenses are paid by the taxpayer during a taxable year for an academic period which begins during the first 3 months following such taxable year, such academic period shall be treated for purposes of this section as beginning during such taxable year.

(5) Denial of double benefit.

No credit shall be allowed under this section for any expense for which a deduction is allowed under any other provision of this chapter.

(6) No credit for married individuals filing separate returns.

If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

(7) Nonresident aliens.

If the taxpayer is a nonresident alien individual for any portion of the taxable year, this section shall apply only if such individual is treated as a resident alien of the United States for purposes of this chapter by reason of an election under subsection (g) or (h) of section 6013 .

(8) Payee statement requirement.

Except as otherwise provided by the Secretary, no credit shall be allowed under this section unless the taxpayer receives a statement furnished under section 6050S(d) which contains all of the information required by paragraph (2) thereof.

(h) Inflation adjustments.

(1) Dollar limitation on amount of credit.

(A) In general. In the case of a taxable year beginning after 2001, each of the \$1,000 amounts under subsection (b)(1) shall be increased by an amount equal to-

(i) such dollar amount, multiplied by

(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting "calendar year 2000" for "calendar year 1992" in subparagraph (B) thereof

(B) Rounding. If any amount as adjusted under subparagraph (A) is not a multiple of \$100, such amount shall be rounded to the next lowest multiple of \$100.

(2) Income limits.

(A) In general. In the case of a taxable year beginning after 2001, the \$40,000 and \$80,000 amounts in subsection (d)(2) shall each be increased by an amount equal to-

(i) such dollar amount, multiplied by

(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting "calendar year 2000" for "calendar year 1992" in subparagraph (B) thereof

(B) Rounding. If any amount as adjusted under subparagraph (A) is not a multiple of \$1,000, such amount shall be rounded to the next lowest multiple of \$1,000.

(i) American opportunity tax credit.

In the case of any taxable year beginning after 2008 and before 2018-

(1) Increase in credit.

The Hope Scholarship Credit shall be an amount equal to the sum of-

(A) 100 percent of so much of the qualified tuition and related expenses paid by the taxpayer during the taxable year (for education furnished to the eligible student during any academic period beginning in such taxable year) as does not exceed \$2,000, plus

(B) 25 percent of such expenses so paid as exceeds \$2,000 but does not exceed \$4,000.

(2) Credit allowed for first 4 years of post-secondary education.

Subparagraphs (A) and (C) of subsection (b)(2) shall be applied by substituting "4" for "2".

(3) Qualified tuition and related expenses to include required course materials.

For purposes of determining the Hope Scholarship Credit, subsection (f)(1)(A) shall be applied by substituting "tuition, fees, and course materials" for "tuition and fees".

(4) Increase in AGI limits for Hope Scholarship Credit.

In lieu of applying subsection (d) with respect to the Hope Scholarship Credit, such credit (determined without regard to this paragraph) shall be reduced (but not below zero) by the amount which bears the same ratio to such credit (as so determined) as-

(A) the excess of-

(i) the taxpayer's modified adjusted gross income (as defined in subsection (d)(3)) for such taxable year, over

(ii) \$80,000 (\$160,000 in the case of a joint return), bears to

(B) \$10,000 (\$20,000 in the case of a joint return).

(5) Portion of credit made refundable.

40 percent of so much of the credit allowed under subsection (a) as is attributable to the Hope Scholarship Credit (determined after application of paragraph (4) and without regard to this paragraph and section 26(a) shall be treated as a credit allowable under subpart C (and not allowed under subsection (a)). The preceding sentence shall not apply to any taxpayer for any taxable year if such taxpayer is a child to whom subsection (g) of section 1 applies for such taxable year.

(6) Coordination with midwestern disaster area benefits.

In the case of a taxpayer with respect to whom section 702(a)(1)(B) of the Heartland Disaster Tax Relief Act of 2008 applies for any taxable year, such taxpayer may elect to waive the application of this subsection to such taxpayer for such taxable year.

(j) Regulations.

The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section , including regulations providing for a recapture of the credit allowed under this section in cases where there is a refund in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit.