



November 1, 2010

College Tax Credit may be Extended

President Obama wants the college tax credit to be extended to cover all 4 years of college. If this move is approved by Congress, it would mean savings of up to \$10,000 in fees for some families. Under the American Opportunity Tax Credit this year, families can claim for any of the first four years of college education. The amount of credit will come up to the full initial \$2,000 spent on each student per year and 25% of the next \$2,000. This brings the total credit to \$2,500 and will be given to the taxpayer who has to pay up to \$4,000 in college fees.

But in his 2011 budget, President Obama has inserted a provision to allow the American Opportunity Tax Credit to continue and also be expanded to cover a student's junior and senior years. This is aimed at making the US the country with the highest proportion of college graduates in its population by 2020.

Last month, the President attended a Rose Garden event with families of college students that highlighted the success of the tax credit program the last two years while at the same time the Treasury Department released a report evaluating the American Opportunity Tax particularly at Community Colleges.

The American Opportunity Tax Credit was passed as law in February last year for the 2009 and 2010 tax years. It is generally considered as most beneficial to families with more than one child in college at the same time. The law was to replace the Hope Scholarship credit as the total \$2,500 credit it offers is \$700 more than Hope did. The qualifying level of income for the American Opportunity Tax Credit is \$80,000 for individual taxpayers and \$160,000 for couples who declare their incomes jointly. The amount of credit decreases as the income of the taxpaying families increase. For individual taxpayers, the highest income to qualify for the tax credit is \$90,000 while for couples it is \$160,000.

Expenses covered by the American Opportunity Tax Credit are college fees and course materials including computers while the Hope Scholarship credit only covered costs up to \$1,800 excluding fees and course materials for the first two years of college only. In addition, if the amount of tax credit is higher than the taxes payable, the difference is refunded to the taxpayers. This was not practiced under the Hope scholarship. As a result, about 4.5 million students received an average refund of \$800 last year and a total of \$3.6 billion in refunds were paid out.