



# Instructions for Form 8863

## Education Credits (American Opportunity and Lifetime Learning Credits)

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### What's New

**Hope credit.** The Hope credit is not available for 2011.

**Future Developments.** The IRS has created a page on IRS.gov for information about Form 8863 and its instructions, at [www.irs.gov/form8863](http://www.irs.gov/form8863). Information about any future developments affecting Form 8863 (such as legislation enacted after we release it) will be posted on that page.

#### Purpose of Form

Use Form 8863 to figure and claim your education credits, which are based on qualified education expenses paid to an eligible postsecondary educational institution. For 2011, there are two education credits.

- The American opportunity credit, part of which may be refundable. Complete Parts I, III, and IV.
- The lifetime learning credit, which is nonrefundable. Complete Parts II and IV.

A **refundable** credit can give you a refund for any part of the credit that is more than your total tax. A **nonrefundable** credit can reduce your tax, but any excess is not refunded to you.

Both of these credits have different rules that can affect your eligibility to claim a specific credit. These differences are shown in Table 1 below.

**TIP** You may be able to take the tuition and fees deduction for you, your spouse, or a dependent, instead of an education credit. Figure your tax both ways and choose the one that gives you the lower tax. See Form 8917, *Tuition and Fees Deduction*, and chapter 6 of Pub. 970, *Tax Benefits for Education*, for more information about the tuition and fees deduction.

#### Who Can Claim an Education Credit

You may be able to claim an education credit if you, your spouse, or a dependent you claim on your tax return was a student enrolled at or attending an eligible educational institution. The credits are based on the amount of qualified education expenses paid for the student in 2011 for academic periods beginning in 2011 and in the first 3 months of 2012.

**CAUTION** Qualified education expenses must be reduced by any expenses paid directly or indirectly using tax-free educational assistance. See Tax-Free Educational Assistance and Refunds of Qualified Education Expenses, later.

**Who can claim a dependent's expenses.** If a student is claimed as a dependent on another person's tax return, only the person who claims the student as a dependent can claim a credit for the student's qualified education expenses. If a

Table 1. Comparison of Education Credits

**Caution.** You can claim both the American opportunity credit and the lifetime learning credit on the same return—but not for the same student.

	American Opportunity Credit	Lifetime Learning Credit
<b>Maximum credit</b>	Up to \$2,500 credit per <b>eligible student</b>	Up to \$2,000 credit per <b>return</b>
<b>Limit on modified adjusted gross income (MAGI)</b>	\$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow(er)	\$122,000 if married filing jointly; \$61,000 if single, head of household, or qualifying widow(er)
<b>Refundable or nonrefundable</b>	40% of credit may be refundable; the rest is nonrefundable	Nonrefundable—credit limited to the amount of tax you must pay on your taxable income
<b>Number of years of postsecondary education</b>	Available <b>ONLY</b> for the first <b>4</b> years of postsecondary education	Available for all years of postsecondary education and for courses to acquire or improve job skills
<b>Number of tax years credit available</b>	Available <b>ONLY</b> for <b>4</b> tax years per eligible student (including any year(s) Hope credit was claimed)	Available for an unlimited number of years
<b>Type of degree required</b>	Student must be pursuing a degree or other recognized education credential	Student does not need to be pursuing a degree or other recognized education credential
<b>Number of courses</b>	Student must be enrolled at least half time for at least one academic period beginning during the year	Available for one or more courses
<b>Felony drug conviction</b>	As of the end of 2011, the student had not been convicted of a felony for possessing or distributing a controlled substance	Felony drug convictions are permitted
<b>Qualified expenses</b>	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	Tuition and required enrollment fees (including amounts required to be paid to the institution for course-related books, supplies, and equipment)
<b>Payments for academic periods</b>	Payments made in 2011 for academic periods beginning in 2011 or beginning in the first 3 months of 2012	

student is not claimed as a dependent on another person's tax return, only the student can claim a credit.

Generally, qualified education expenses paid on behalf of the student by someone other than the student (such as a relative) are treated as paid by the student. However, qualified education expenses paid (or treated as paid) by a student who is claimed as a dependent on your tax return are treated as paid by you. Therefore, you are treated as having paid expenses that were paid from your dependent student's earnings, gifts, inheritances, savings, etc. For more information and an example, see *Who Can Claim a Dependent's Expenses* in Pub. 970, chapter 2 or 3.

**Who cannot claim a credit.** You cannot take an education credit if any of the following apply.

1. You are claimed as a dependent on another person's tax return, such as your parent's return.
2. Your filing status is married filing separately.
3. You (or your spouse) were a nonresident alien for any part of 2011 and did not elect to be treated as a resident alien for tax purposes.
4. Your modified adjusted gross income (MAGI) is one of the following.
  - a. American opportunity credit: \$180,000 or more if married filing jointly, or \$90,000 or more if single, head of household, or qualifying widow(er).
  - b. Lifetime learning credit: \$122,000 or more if married filing jointly, or \$61,000 or more if single, head of household, or qualifying widow(er).

**TIP** *There are a number of factors, such as your filing status, your MAGI, and whether you are subject to the alternative minimum tax, that will affect the amount of any education credit you are eligible to claim. When you figure your taxes, you may want to compare the different education credits in order to choose the method(s) that gives you the lowest tax liability. If you qualify, you may find that a combination of credits and other education benefits gives you the lowest tax. See Pub. 970 for information on other benefits.*

## Qualified Education Expenses

Generally, qualified education expenses are amounts paid in 2011 for tuition and fees required for the student's enrollment or attendance at an eligible educational institution. It does not matter whether the expenses were paid in cash, by check, by credit or debit card, or with borrowed funds.

Only certain expenses for course-related books, supplies, and equipment qualify.

- American opportunity credit: Qualified education expenses include amounts spent on books, supplies, and equipment needed for a course of study, whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance.
- Lifetime learning credit: Qualified education expenses include **only** amounts for books, supplies, and equipment required to be paid to the institution as a condition of enrollment or attendance.

Qualified education expenses for either credit **do not** include amounts paid for:

- Room and board, insurance, medical expenses (including student health fees), transportation, or other similar personal, living, or family expenses.
- Any course or other education involving sports, games, or hobbies, or any noncredit course, unless such course or other education is part of the student's degree program or (for the lifetime learning credit only) helps the student acquire or improve job skills.
- Nonacademic fees, such as student activity fees, athletic fees, insurance expenses, or other expenses unrelated to the academic course of instruction.

You should receive Form 1098-T, Tuition Statement, from the college or university reporting either payments received in

2011 (box 1) or amounts billed in 2011 (box 2). However, the amount in box 1 or 2 of Form 1098-T may be different from what you actually paid. On Form 8863, lines 1 and 3, enter only the amounts you paid in 2011 for qualified expenses (reduced, if necessary, by tax-free education assistance and refunds, as described later). See chapters 2 and 3 of Pub. 970 for more information on Form 1098-T.

If you or the student takes a deduction for higher education expenses, such as on Schedule A or Schedule C (Form 1040), you cannot use those same expenses in your qualified education expenses when figuring your education credits.



*Any qualified expenses used to figure the education credits cannot be taken into account in determining the amount of a distribution from a Coverdell ESA or a qualified tuition program (section 529 plan) that is excluded from gross income. See Pub. 970, chapters 7 and 8, for more information.*

## Prepaid Expenses

Qualified education expenses paid in 2011 for an academic period that begins in the first 3 months of 2012 can be used only in figuring your 2011 education credits. For example, if you pay \$2,000 in December 2011 for qualified tuition for the 2012 winter quarter that begins in January 2012, you can use that \$2,000 in figuring your 2011 education credits (if you meet all the other requirements).



*You cannot use any amount paid in 2010 or 2012 to figure your 2011 education credit(s).*

## Tax-Free Educational Assistance and Refunds of Qualified Education Expenses

Tax-free educational assistance includes a tax-free scholarship or Pell grant or tax-free employer-provided educational assistance. See chapter 1 of Pub. 970 for specific information.

**Adjusted qualified education expenses.** For both credits, you must reduce the total of your qualified education expenses by any tax-free educational assistance for the qualified education expenses paid in 2011 and by any refunds of your qualified education expenses paid in 2011 if the refund or tax-free assistance is received in 2011 or in 2012 before you file your 2011 tax return. This is the amount of your adjusted qualified education expenses. Use the Qualified Education Expenses Worksheet for Part I, Line 1, Column (c) for the American opportunity credit. Use the Qualified Education Expenses Worksheet for Part II, Line 3, Column (c) for the lifetime learning credit.

**Credit recapture.** If any tax-free educational assistance for the qualified education expenses paid in 2011 or any refund of your qualified education expenses paid in 2011 is received after you file your return for the year in which the expenses were paid, you must recapture (repay) any excess credit. You do this by figuring the amount by which your tax liability would have increased if the refund or tax-free assistance had been received in the year for which you claimed the education credit(s). Include that amount as an additional tax for the year the refund or tax-free assistance was received.

**Example.** You paid \$8,000 tuition and fees in December 2011 for your child's spring semester beginning in January 2012. You filed your 2011 tax return on February 2, 2012, and claimed a lifetime learning credit of \$1,600 (\$8,000 qualified expenses paid x .20). You claimed no other tax credits. After you filed your return, your child dropped two courses and you received a refund of \$1,400.

You must refigure your 2011 lifetime learning credit using \$6,600 (\$8,000 qualified expenses - \$1,400 refund). The refigured credit is \$1,320 and your tax liability increased by \$280. You must include the difference of \$280 (\$1,600 credit originally claimed - \$1,320 refigured credit) as additional tax on your 2012 income tax return. See the instructions for your 2012 income tax return to determine where to include this tax.

## Eligible Educational Institution

An eligible educational institution is generally any accredited public, nonprofit, or proprietary (private) college, university, vocational school, or other postsecondary institution. Also, the institution must be eligible to participate in a student aid program administered by the Department of Education. Virtually all accredited postsecondary institutions meet this definition.

## Additional Information

See Pub. 970, chapters 2 and 3, for more information about these credits.

## Specific Instructions

### Part I

#### American Opportunity Credit

You may be able to take a credit of up to \$2,500 for adjusted qualified education expenses (defined earlier) paid for each student who qualifies for the American opportunity credit. This credit equals 100% of the first \$2,000 and 25% of the next \$2,000 of qualified expenses paid for each eligible student. The amount of your credit for 2011 is gradually reduced (phased out) if your MAGI is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if you file a joint return). You cannot claim a credit if your MAGI is \$90,000 or more (\$180,000 or more if you file a joint return).

**Student qualifications.** Generally, you can take the American opportunity credit for a student if **all** of the following apply.

- As of the beginning of 2011, 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, do not include academic credit awarded solely because of the student's performance on proficiency examinations.
- The student was enrolled in 2011 in a program that leads to a degree, certificate, or other recognized educational credential.
- The student was taking at least one-half the normal full-time workload for his or her course of study for at least one academic period beginning in 2011.
- As of the end of 2011, the student had not been convicted of a felony for possessing or distributing a controlled substance.

 **TIP** If any of the above conditions are not met for any student, you cannot take the American opportunity credit for that student. You may be able to take the lifetime learning credit for part or all of that student's qualified education expenses instead.

#### Line 1

Complete columns (a) through (f) on line 1 for each student who qualifies for and for whom you elect to take the American opportunity credit.

**More than three students.** If you are taking this credit for more than three students, enter "See attached" next to line 1 and attach a statement with the required information for each additional student. Include the amounts from line 1, column (f), for all students in the total you enter on line 2.

**Column (c).** For each student, enter the amount of adjusted qualified education expenses (defined earlier). To be allowed the credit for 2011, the expenses must have been paid for the student in 2011 for academic periods beginning after 2010 but before April 1, 2012, as explained earlier under *Prepaid*

*Expenses.* If the student's expenses are more than \$4,000, enter \$4,000. You can use the worksheet below to figure the correct amount to enter in column (c).

#### Qualified Education Expenses Worksheet for Part I, Line 1, Column (c)

See *Qualified Education Expenses*, earlier, before completing.

(Do a separate worksheet for each student)

1.	Total qualified education expenses . . . . .	_____
2.	Less adjustments:	
	a. Tax-free educational assistance . . . . .	_____
	b. Refunds of qualified education expenses paid in 2011 . . . . .	_____
3.	Total adjustments (add lines 2a and 2b) . . . . .	_____
4.	Adjusted qualified education expenses. Subtract line 3 from line 1. If zero or less, enter -0- . . . . .	_____
5.	Enter the <b>smaller</b> of line 4 or \$4,000 here and on Form 8863, Part I, column (c) . . . . .	_____

### Part II

#### Lifetime Learning Credit

The lifetime learning credit equals 20% of adjusted qualified education expenses (defined earlier), up to a maximum of \$10,000 of adjusted qualified education expenses per return. Therefore, the maximum lifetime learning credit you can claim on your return for the year is \$2,000, regardless of the number of students for whom you are claiming the credit. The amount of your credit for 2011 is gradually reduced (phased out) if your MAGI is between \$51,000 and \$61,000 (\$102,000 and \$122,000 if you file a joint return). You cannot claim a credit if your MAGI is \$61,000 or more (\$122,000 or more if you file a joint return).



*You cannot claim the lifetime learning credit for any student for whom you are claiming the American opportunity credit in the same tax year.*

#### Line 3

Complete columns (a) through (c) on line 3 for each student for whom you are taking the lifetime learning credit.

**More than three students.** If you are taking the lifetime learning credit for more than three students, enter "See attached" next to line 3 and attach a statement with the required information for each additional student. Include the amounts from line 3, column (c), for all students in the total you enter on line 4.

**Column (c).** For each student, enter the amount of adjusted qualified education expenses (defined earlier). The expenses must have been paid for the student in 2011 for academic periods beginning after 2010 but before April 1, 2012, as explained earlier under *Prepaid Expenses*. You can use the *Qualified Education Expenses Worksheet for Part II, Line 3, Column (c)*, later, to figure the correct amount to enter in column (c).

**Qualified Education Expenses Worksheet  
for Part II, Line 3, Column (c)**

See *Qualified Education Expenses*, earlier, before completing.

(Do a separate worksheet for each student)

1. Total qualified education expenses . . . . .	_____
2. Less adjustments:	
a. Tax-free educational assistance . . . . .	_____
b. Refunds of qualified education expenses paid in 2011 . . . . .	_____
3. Total adjustments (add lines 2a and 2b) . . . . .	_____
4. Adjusted qualified education expenses. Subtract line 3 from line 1. Enter here and on Form 8863, Part II, column (c). If zero or less, enter -0- . . . . .	_____

If you meet these conditions, check the box next to line 13, skip line 14, and enter the amount from line 13 on line 15.

**Earned income.** Examples of earned income include wages, salaries, tips, and other taxable employee pay; net earnings from self-employment; and gross income received as a statutory employee. Statutory employees include full-time life insurance agents, certain agent or commission drivers and traveling salespersons, and certain homeworkers.

**Support.** Your support includes all amounts spent to provide you with food, lodging, clothing, education, medical and dental care, recreation, transportation, and similar necessities. To figure your support, count support provided by you, your parents, and others. However, a scholarship received by you is not considered support if you were a full-time student (defined below) for 2011.

**Full-time student.** You were a full-time student for 2011 if during any part of any 5 calendar months during the year you were enrolled as a full-time student at an eligible educational institution (defined earlier), or took a full-time, on-farm training course given by such an institution or by a state, county, or local government agency.

**Part III  
Refundable American Opportunity Credit**

**Line 13**

If you were under age 24 at the end of 2011 and the conditions listed below apply to you, you **cannot** claim any part of the American opportunity credit as a refundable credit on your tax return. Instead, your allowed credit, which is figured in Part IV, will be used to reduce your tax as a nonrefundable credit only.

You do **not** qualify for a refund if 1 (a, b, or c), 2, and 3 below apply to you.

1. You were:
  - a. Under age 18 at the end of 2011, **or**
  - b. Age 18 at the end of 2011 **and** your earned income (defined later) was less than one-half of your support (defined later), **or**
  - c. Over age 18 and under age 24 at the end of 2011 **and** a full time student (defined later) **and** your earned income (defined later) was less than one-half of your support (defined later).
2. At least one of your parents was alive at the end of 2011.
3. You are not filing a joint return for 2011.

**Part IV  
Nonrefundable Education Credits**

**Line 16**

Enter your tentative lifetime learning credit from Part II, line 6, and go to line 17.

**Note.** If you are claiming **only** the American opportunity credit, you will not have an entry on this line. Instead, enter the amount from line 15 on line 6 of the Credit Limit Worksheet below.

**Line 22**

You will have an amount on line 22 if you are claiming the lifetime learning credit. Enter this amount on line 1 of the Credit Limit Worksheet below.

**Line 23**

Complete the credit limit worksheet to figure your nonrefundable education credit.

**Credit Limit Worksheet—Form 8863, Line 23**

<b>Nonrefundable lifetime learning credit</b>	
1. Enter the amount from Form 8863, line 22 . . . . .	1. _____
2. Enter the amount from Form 1040, line 46, or Form 1040A, line 28 . . . . .	2. _____
3. Enter the total, if any, of your credits from:	
• Form 1040, lines 47, 48, and the amount from Schedule R entered on line 53	} 3. _____
• Form 1040A, lines 29 and 30	
4. Subtract line 3 from line 2 . . . . .	4. _____
5. <b>Nonrefundable lifetime learning credit.</b> Enter the <b>smaller</b> of line 1 or line 4 . . . . .	5. _____
<b>Nonrefundable American opportunity credit</b>	
6. Enter the amount from Form 8863, line 15 . . . . .	6. _____
7. Enter the amount from Form 1040, line 46, or Form 1040A, line 28 . . . . .	7. _____
8. Enter the total, if any, of your credits from:	
• Form 1040, lines 47, 48, and the amount from Schedule R entered on line 53, and the amount from line 5 above	} 8. _____
• Form 1040A, lines 29 and 30, and the amount from line 5 above	
9. Subtract line 8 from line 7 . . . . .	9. _____
10. <b>Nonrefundable American opportunity credit.</b> Enter the <b>smaller</b> of line 6 or line 9 . . . . .	10. _____
11. <b>Nonrefundable education credits.</b> Add line 5 and line 10. Enter here and on Form 8863, line 23 . . . . .	11. _____