

It's school time, and the Internal Revenue Service has reminded college students and parents about expanded tax benefits for education and rule changes for tax-free college savings plans known as 529 plans.

Two key changes from the Recovery Act of 2009 may help students and parents in 2010.

One change allows 529 plan users to pay for a student's computer-related technology needs such as internet access. The other change means more taxpayers will be eligible to claim a new education credit to offset cost of college and maybe even get a bigger refund.

"There are significant expanded credits and deductions in education," said IRS Spokesman Christopher Miller. "Taxpayers are encouraged to review their situation and take the tax benefit that offers the most savings."

### **Helping Pay for College**

The American Opportunity Tax Credit (AOTC) modifies the existing Hope credit for tax years 2009 and 2010, making it available to a broader range of taxpayers.

Those eligible may qualify for the maximum annual credit of \$2,500 per student. The AOTC generally offers greater tax savings than existing education tax breaks.

Other key features include:

Available for the first four years of post-secondary education, expanding on the two years allowed by the Hope Credit.

Tuition, related fees, books and other required course materials generally qualify. In the past, books were generally ineligible.

The credit is equal to 100 percent of the first \$2,000 spent and 25 percent of the next \$2,000. That means the full \$2,500 credit may be available to a taxpayer who pays \$4,000 or more in qualified expenses for an eligible student.

The full credit is available for taxpayers whose modified adjusted gross income is \$80,000 or less (\$160,000 for joint filers). A smaller credit is available for incomes above those limits, but it eventually phases out. These limits are higher than under the existing Hope and Lifetime Learning Credits.

Forty percent of the American Opportunity Credit is refundable, so even those who owe no tax can get up to \$1,000 back as a refund for each eligible student. Existing education-related credits and deductions do not provide a benefit to people who owe no tax.

### **529 Plans Expanded**

Tax-free college savings plans, commonly called 529 plans, allow tax-free distributions as long as the funds are used to pay qualified higher education expenses for a designated beneficiary. Qualified expenses include tuition, required fees, books, supplies, equipment and special needs services.

For 2010, computer technology and equipment or Internet access and related services to be used by the student while enrolled at an eligible educational institution also qualify. (Software designed for sports, games or hobbies does not qualify, unless it is predominantly educational in nature.)

A Tax Benefits for Education section at IRS.gov is a “one-stop-shop” with tips for taking advantage of long-standing education deductions and credits as well as the new American Opportunity Tax Credit.

It also provides details on saving for college. IRS Publication 970, Tax Benefits for Education, can be downloaded at IRS.gov or by calling 1-800-TAX-FORM (800-829-3676) to order it.