

## **Above-the-line deduction for 2007 higher education expenses is claimed on new Form 8917**

IRS has released Form 8917 (2007), Tuition and Fees Deduction, which is to be used by taxpayers who deduct qualified education expenses paid to an eligible postsecondary educational institution in 2007. [Note: Checkpoint subscribers can click the link in this article on today's Newsstand tab to view the form.]

**Background on qualified tuition deduction.** For payments made before 2008, eligible individuals may deduct higher education expenses—i.e., “qualified tuition and related expenses” of the taxpayer, his spouse, or dependents—as an adjustment to arrive at adjusted gross income. (Code Sec. 222(a)) The higher education deduction can't exceed:

- \$4,000 for taxpayers whose modified AGI for the tax year doesn't exceed \$65,000 (\$130,000 for a joint return);
- \$2,000 for taxpayers whose modified AGI exceeds \$65,000 (\$130,000 for a joint return), but doesn't exceed \$80,000 (\$160,000 for a joint return); and
- zero for other taxpayers. (Code Sec. 222(b)(2)(B))

**How the deduction was claimed in 2006.** When IRS sent paper forms for the 2006 tax year to its printer in November of 2006, the higher education expense deduction under Code Sec. 222 had expired for tax years after 2005 and had not yet been revived and extended by the later enacted Tax Relief and Health Care Act of 2006 (P.L. 109-432). When that Act made the deduction available for tax years beginning before 2008, IRS did not reissue its outdated paper forms to reflect the revived deduction, but instead provided special instructions.

For 2006, an individual had to file Form 1040 to take the deduction. The deduction couldn't be claimed on Form 1040A. An individual claimed the deduction on Form 1040, line 35, “Domestic production activities deduction” by entering “T” on the dotted line to the left of that line entry. An individual claiming both a deduction for domestic production activities and the deduction for tuition and fees had to enter “B” on the dotted line. Those entering “B” had to attach a breakdown showing the amounts claimed for each deduction. (IR 2006-195, see Federal Taxes Weekly Alert 12/28/2006)

**RIA observation:** Once again, Congress is considering a number of other tax bills that could affect the 2007 return and the 2008 tax year, including retroactive alternative minimum tax relief to the beginning of 2007 and the extension of a number of tax provisions that will expire at the end of 2007, such as the Code Sec. 222 deduction (see Federal Taxes Weekly Alert 08/30/2007).

**New form released.** IRS has released Form 8917 which is to be used by taxpayers claiming a deduction under Code Sec. 222 for qualified education expenses paid to an eligible postsecondary educational. Taxpayers filing Form 1040, enter the deduction on line 34. Taxpayers filing Form 1040A enter the deduction on line 19. The form includes several cautions, warning taxpayers that: (1) they can't take both an education credit from Form 8863 (Hope and Lifetime Learning credits) and the tuition and fees deduction on Form 8917 for the same student in the same year; and (2) qualified education expenses must be reduced by any expenses paid directly or indirectly using tax-free educational assistance.

Form 8917 also advises taxpayers that they may be able to take the Hope credit or Lifetime Learning credit for their education expenses instead of the tuition and fees deduction. Taxpayers should figure their tax both ways and choose the one that gives them the lower tax.