

Education Credits (Hope and Lifetime Learning Credits)

▶ See instructions on pages 2 and 3. ▶ Attach to Form 1040 or Form 1040A.

Your social security number

Part I Hope Credit. Caution: The Hope credit may be claimed for no more than 2 tax years for the same student.

1	(a) Student's name (as shown on page 1 of your tax return) First, Last	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (but do not enter more than \$2,000 for each student). See instructions	(d) Enter the smaller of the amount in column (c) or \$1,000	(e) Subtract column (d) from column (c)	(f) Enter one-half of the amount in column (e)
2	Add the amounts in columns (d) and (f)			2		
3	Tentative Hope credit. Add the amounts on line 2, columns (d) and (f) ▶					3

Part II Lifetime Learning Credit

4	(a) Student's name (as shown on page 1 of your tax return) First Last	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses. See instructions	
5	Add the amounts on line 4, column (c), and enter the total		5	
6	Enter the smaller of line 5 or \$5,000		6	
7	Tentative lifetime learning credit. Multiply line 6 by 20% (.20) ▶			7

Part III Allowable Education Credits

8	Tentative education credits. Add lines 3 and 7		8
9	Enter: \$100,000 if married filing jointly; \$50,000 if single, head of household, or qualifying widow(er)		
10	Enter the amount from Form 1040, line 34 (or Form 1040A, line 20)*		
11	Subtract line 10 from line 9. If line 10 is equal to or more than line 9, stop ; you cannot take any education credits		
12	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er)		
13	If line 11 is equal to or more than line 12, enter the amount from line 8 on line 14 and go to line 15. If line 11 is less than line 12, divide line 11 by line 12. Enter the result as a decimal (rounded to at least three places)	× .	
14	Multiply line 8 by line 13 ▶		14
15	Enter the amount from Form 1040, line 42 (or Form 1040A, line 26)		15
16	Enter the total, if any, of your credits from Form 1040, lines 43 through 45 (or from Form 1040A, lines 27 and 28)		16
17	Subtract line 16 from line 15. If line 16 is equal to or more than line 15, stop ; you cannot take any education credits		17
18	Education credits. Enter the smaller of line 14 or line 17 here and on Form 1040, line 46 (or Form 1040A, line 29) ▶		18

*See Pub. 970 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.

General Instructions

Purpose of Form

Use Form 8863 to figure and claim your education credits. The education credits are:

- The Hope credit and
- The lifetime learning credit.

Who May Claim the Credits

You may be able to claim the credits 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 expenses** paid for the student in 2001 for academic periods beginning in 2001 and the first 3 months of 2002. However, qualified expenses **do not** include expenses paid directly or indirectly using tax-free educational assistance (see below).

Note: *If a student is claimed as a dependent on another person's tax return, only the person who claims the student as a dependent may claim the credits for the student's qualified expenses. If a student is not claimed as a dependent on another person's tax return, only the student may claim the credits.*

Generally, qualified expenses paid on behalf of the student by someone other than the student (such as a relative) are treated as paid by the student. In addition, qualified 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.

You **cannot** claim the education credits 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 (but see the note above).
2. Your filing status is married filing separately.
3. Your adjusted gross income (from Form 1040, line 34, or Form 1040A, line 20) is:
 - \$100,000 or more if married filing jointly or
 - \$50,000 or more if single, head of household, or qualifying widow(er).

4. You (or your spouse) were a nonresident alien for any part of 2001 and the nonresident alien did not elect to be treated as a resident alien.

Additional Information

See **Pub. 970**, Tax Benefits for Higher Education, for more information about these credits.

Rules That Apply to Both Credits

What Expenses Qualify?

Generally, **qualified expenses** are amounts paid in 2001 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 card, or with borrowed funds.

Qualified expenses **do not** include the following.

- Amounts paid for room and board, insurance, medical expenses (including student health fees), transportation, or other similar personal, living, or family expenses.
- Amounts paid for course-related books, supplies, equipment, and nonacademic activities, except for fees **required** to be paid to the institution as a condition of enrollment or attendance.
- Amounts paid for any course or other education involving sports, games, or hobbies, unless such course or other education is part of the student's degree program or (for the lifetime learning credit only) helps the student to acquire or improve job skills.

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

Tax-Free Educational Assistance and Refunds of Qualified Expenses

You must reduce the total of your qualified expenses by any tax-free educational assistance and by any refunds of qualified expenses. If the refund or tax-free assistance is received in the same year in which the expenses were paid or in the following year before you file your

tax return, reduce your qualified expenses by the amount received and figure your education credits using the reduced amount of qualified expenses. If the refund or tax-free assistance is received after you file your return for the year in which the expenses were paid, you must figure the amount by which your education credits would have been reduced if the refund or tax-free assistance had been received in the year for which you claimed the education credits. Include that amount as an additional tax for the year the refund or tax-free assistance was received on the tax line of your tax return (line 40 of the 2001 Form 1040 or line 26 of the 2001 Form 1040A). Enter the amount and "ECR" next to that line.

Example. You paid \$2,250 tuition on December 26, 2000, and your child began college on January 29, 2001. You filed your 2000 tax return on February 1, 2001, and claimed a Hope credit of \$1,500. After you filed your return, your child dropped two courses (but maintained one-half of a full-time workload), and you received a refund of \$750. You must refigure your 2000 Hope credit using \$1,500 of qualified expenses instead of \$2,250. The refigured credit is \$1,250. You must include the difference of \$250 on line 40 of your 2001 Form 1040 or line 26 of your 2001 Form 1040A.

Tax-free educational assistance includes a tax-free scholarship or Pell grant or tax-free employer-provided educational assistance.



*If a student received a tax-free distribution from a Coverdell education savings account (ESA) in 2001, none of that student's expenses may be used to figure any 2001 education credits. However, the student may elect to be taxed on the distribution and the expenses may then be used to figure 2001 education credits. See **Form 8606**, Nondeductible IRAs and Coverdell ESAs, for details.*

Prepaid Expenses

Qualified expenses paid in 2001 for an academic period that **begins** in the first 3 months of 2002 can be used in figuring your 2001 education credits. For example, if you pay \$2,000 in December 2001 for

qualified tuition for the 2002 winter quarter that begins in January 2002, you can use that \$2,000 in figuring your 2001 education credits (if you meet all the other requirements).



You cannot use any amount paid in 2000 or 2002 to figure your 2001 education credits.

What Is an 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.

Specific Instructions

Part I Hope Credit

You may be able to claim a credit of up to \$1,500 for qualified expenses (defined earlier) paid for **each** student who qualifies for the Hope credit. You can claim the Hope credit for a student if **all five** of the following apply.

1. As of the beginning of 2001, the student had not completed the first 2 years of postsecondary education (generally, the freshman and sophomore 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.
2. The student was enrolled in 2001 in a program that leads to a degree, certificate, or other recognized educational credential.
3. 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 2001.
4. The Hope credit was **not** claimed for that student's expenses in more than one prior tax year.
5. The student has not been convicted of a felony for possessing or distributing a controlled substance.

If a student does not meet **all five** of the qualifications, you may be able to take the lifetime learning credit for part or all of that student's qualified 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 Hope credit.

Column (a)

Enter the first name of the student above the dotted line, and enter the student's last name below the dotted line.

Column (c)

Enter **only** qualified expenses paid for the student in 2001 for academic periods beginning after 2000 but before April 1, 2002, as explained on page 2. If the student's expenses are more than \$2,000, enter \$2,000.

Note: If you have more than three students who qualify for the Hope credit, write "See attached" next to line 1 and attach a statement with the required information for each additional student. Include the totals from line 1, columns (d) and (f), for all students in the amount you enter in columns (d) and (f) on line 2.

Part II Lifetime Learning Credit

The maximum lifetime learning credit for 2001 is \$1,000, regardless of the number of students. For the lifetime learning credit, you **cannot** use any qualified expenses of a student for whom you elect to take the Hope credit.

Line 4

Complete columns (a) through (c) for each student for whom you are claiming the lifetime learning credit.



You cannot claim the lifetime learning credit for any student for whom you are claiming the Hope credit.

Column (c)

Enter **only** qualified expenses paid for the student in 2001 for academic periods beginning after 2000 but before April 1, 2002, as explained on page 2.

Note: If you are claiming the lifetime learning credit for more than five students, write "See attached" next to line 4 and attach a statement with the required information for each additional student. Include the totals from line 4, column (c), in the amount you enter on line 5.

Part III Allowable Education Credits

The amount of your education credits may be limited by the amount of your modified adjusted gross income or the amount of tax you owe. Part III figures these limits.

Paperwork Reduction Act Notice.

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping, 13 min.; **Learning about the law or the form**, 10 min.; **Preparing the form**, 34 min.; **Copying, assembling, and sending the form to the IRS**, 34 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

