AMERICAN OPPORTUNITY TAX CREDIT
Under the new American Recovery and Reinvestment Act (ARRA) signed into law by President Obama on February 17, 2009, textbook and other course material expenses incurred in 2009 or 2010 not covered by scholarship or grant aid may be used as a tax credit on that year’s tax return. According to the IRS, the new credit modifies the existing Hope Credit for tax years 2009 and 2010, making the Hope Credit available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. It also adds required course materials to the list of qualifying expenses and allows the credit to be claimed for four post-secondary education years instead of two. Many of those eligible will qualify for the maximum annual credit of $2,500 per student.

If your student has out-of-pocket textbook expenses or tuition and fees during 2009 and no other financial grant aid covers those expenses, you will be able to claim the expenses as a credit. For each student, the credit is limited to $2,500.00. Let’s say your federal tax liability for 2009 is $2,000.00 before the American Opportunity credit, and your student had $5,000.00 in allowable higher education expenses. The first $2,000.00 in out-of-pocket textbook purchases and tuition and fees go towards your tax credit at 100%, and everything over that is allowable at 25% up to a total credit per student of $2,500.00. You would have a credit of $2,000.00 plus $500.00 of the remaining $3,000.00 (25% of the expenses over $2,000.00 up to an extra $500.00 credit). Because this credit is partially refundable, the $2,500.00 credit results in a refund of $500.00! If your 2009 tax liability is zero and your student’s textbook credit was $2,500.00, you could actually claim the full credit of $2,500.00 and receive a refund of $1,000.00 because the credit is 40% refundable (.40 times $2,500.00 = $1,000.00).

Now you are thinking this is terrific but how do you get the total of textbook expenses. Students are not always the best at keeping all the receipts for the year and giving them to you. Then, of course, you need to be able to read the receipt. Sometimes it is hard to tell exactly what your student purchased.

THE ANSWER
The University of Arkansas Bookstore has the answer for you. Your student should sign into the customer loyalty program. This is a no cost program that provides many benefits to the student and more importantly, in this case, for you. When a student presents his or her ID number, the purchase is added into the system that tracks the purchase by item, invoice number and date. Your student will have an ID and password to use to gather information from the system. One such bit of information will be the total of all possible tax deductible purchases for 2009! Now you have the information you need without expecting your student to keep individual receipts for you.

RESTRICTIONS
As in all tax issues, there are restrictions, but very few for this potential tax savings. Your student must be an undergrad and more than half-time. If you are a married couple filing jointly, your tax savings may be reduced when your adjusted gross income is greater than $160,000. The updated IRS forms for this credit are not yet available, however should be available this summer at IRS.gov. Tax issues are continually changing, and as always, ask a tax professional if you have specific questions.

Textbooks and tax credits now go together!