

Dear Client,

The recently enacted "American Recovery and Reinvestment Act of 2009" (the 2009 economic stimulus act) includes a measure aimed at making college more affordable for low and moderate-income students. The new provision temporarily enlarges the Hope tax credit (renamed the American Opportunity tax credit) for students from middle-income families and partially extends this tax credit for the first time to students from lower-income families. Here are the details.

- The new law creates a new American Opportunity tax credit for 2009 and 2010, replacing and expanding the Hope tax credit for those years.
- The maximum amount of the American Opportunity tax credit is \$2,500 (up from a maximum credit of \$1,800 under the Hope credit). The credit is 100% of the first \$2,000 of qualifying expenses and 25% of the next \$2,000, so the maximum credit of \$2,500 is reached when a student has qualifying expenses of \$4,000 or more.
- While the Hope credit was only available for the first two years of undergraduate education, the American Opportunity tax credit is available for up to four years.
- Under the Hope credit, qualifying expenses were narrowly defined to include just tuition and fees required for the student's enrollment. Textbooks were excluded, despite their escalating cost in recent years. The American Opportunity tax credit expands the list of qualifying expenses to include textbooks.
- The Hope credit was nonrefundable, i.e, it could reduce your regular tax bill to zero but could not result in a refund. This meant that if a family didn't owe any taxes it couldn't benefit from the credit, which prompted critics to argue that the credit was thus denied to the very families most in need of help affording college. The American Opportunity tax credit addresses this criticism to a degree by providing that 40% of the credit is refundable. This means that someone who has at least \$4,000 in qualified expenses and who would thus qualify for the maximum credit of \$2,500, but who has no tax liability to offset that credit against, would qualify for a \$1,000 (40% of \$2,500) refund from the government.
- The Hope credit was not available to someone with higher than moderate income. Under the credit's "phaseout" provision, taxpayers with adjusted gross income (AGI) over \$50,000 (for 2009) saw their credits reduced, and the credit was completely eliminated for AGIs over \$60,000 (twice those amounts for joint filers). Under the American Opportunity tax credit, taxpayers with somewhat higher incomes can qualify, as the phaseout of the credit begins at AGI in excess of \$80,000 (\$160,000 for joint filers).

I hope this information is helpful. If you would like more details about this or any other aspect of the new law, please do not hesitate to call our office.

Very truly yours,

RADKE & MOHRHAUSER, LLC