

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 education credits for qualified expenses paid in 1998 for a student enrolled at or attending an eligible educational institution.

You **cannot** claim the education credits if:

1. Your filing status is married filing separately,
2. You are claimed as a dependent on another person's tax return, such as your parent's return (but see the **TIP** under **What Expenses Qualify?** below), or
3. Your adjusted gross income (from Form 1040, line 34, or Form 1040A, line 19) is:
 - \$100,000 or more if married filing jointly, or
 - \$50,000 or more if single, head of household, or qualifying widow(er).

See **Pub. 970**, Tax Benefits for Higher Education, for more details about these credits and other tax benefits for people who paid higher education costs.

Rules That Apply to Both Credits

What Expenses Qualify?

Generally, **qualified expenses** are amounts you paid for tuition and fees required for enrollment or attendance at an eligible educational institution for you, your spouse, or a dependent you claim on your tax return. Amounts you paid include amounts charged to your credit card.

Qualified expenses **do not** include amounts paid for:

- Room and board, insurance, transportation, or other similar personal, living, or family expenses.
- Books or equipment (except as provided in regulations).
- 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 claim 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. Also, higher education expenses paid with a tax-free scholarship, Pell grant, or employer-provided educational assistance cannot be used when figuring your education credits.

Caution: *If a student received a tax-free distribution from an education IRA for 1998, none of that student's expenses may be used to figure any 1998 education credits. However, the student may elect to be taxed on the distribution. See Form 8606, Nondeductible IRAs, for details.*



Expenses paid by a student whom you claim as your dependent are treated as having been paid by you. Therefore, you can use expenses paid with the dependent student's earnings, loans, gifts, inheritances, or personal savings in figuring your education credits. A student who is claimed as a dependent on your return cannot claim education credits on his or her return.

Prepaid Expenses

If you paid qualified expenses in 1998 for an academic period that **begins** in the first 3 months of 1999, you can use the prepaid amount in figuring your 1998 credit. For example, if you pay \$2,000 in December 1998 for qualified tuition for the 1999 winter quarter that begins in January 1999, you can use that \$2,000 in figuring your 1998 credit.

Caution: *You cannot use any amount paid in 1997 or 1999 to figure your 1998 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. 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 requirement.

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. The expenses must have been paid in 1998 for academic periods starting after December 31, 1997, and before April 1, 1999. You can claim the Hope credit **only** for a student who:

- Had not completed the first 2 years of postsecondary education (generally, the freshman and sophomore years of college) as of December 31, 1997,
- Is enrolled in a program that leads to a degree, certificate, or other recognized educational credential,
- Is 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 1998, **and**
- Has not been convicted of a felony for possessing or distributing a controlled substance.

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

Note: *The Hope credit may be claimed for no more than 2 tax years for each student.*

Lifetime Learning Credit

The maximum lifetime learning credit is \$1,000 per year, regardless of the number of students. Only qualified expenses paid **after** June 30, 1998, and before January 1, 1999, for academic periods beginning after June 30, 1998, and before April 1, 1999, can be used to figure the lifetime learning credit.

Exception. For the lifetime learning credit, you may not use qualified expenses of any student for whom you elect to take the Hope credit.

Specific Instructions

Part I Hope Credit

Line 1

Complete columns (a) through (f) on line 1 for each student who qualifies 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. Enter the name as shown on page 1 of your tax return.

Column (b)

Enter the student's social security number as shown on page 1 of your tax return.

Column (c)

Enter **only** qualified expenses paid for the student in 1998 for academic periods beginning after 1997 but before April 1, 1999, as explained on page 3. If the student's expenses are more than \$2,000, enter \$2,000.

Line 3

This is the total Hope credit for all students shown on line 1.

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

Line 4

Complete columns (a) through (c) on line 4 for each student for whom you are claiming the lifetime learning credit.

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

Column (a)

Enter the first and last name of the student as shown on page 1 of your tax return.

Column (b)

Enter the student's social security number as shown on page 1 of your tax return.

Column (c)

Enter **only** qualified expenses paid for the student **after** June 30, 1998 (and before January 1, 1999), for academic periods beginning **after** June 30, 1998 (and before April 1, 1999).

Line 7

This is the maximum lifetime learning credit you can claim for 1998.

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 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.

