

## **Education Credits expanded for GO Zone.**

As you know, one of the side effects of Hurricane Katrina was that tens of thousands of college students in New Orleans and other hard hit Gulf areas have seen their educations disrupted, with many of them either having to transfer to other institutions outside the area of devastation or simply having to take a break from their studies. Many colleges and universities in the disaster area were forced to curtail their course offerings or, in some cases, to close their doors altogether for a time. Congress, recognizing the hardships dealt to higher education by Hurricane Katrina, included in the recently enacted Gulf Opportunity Zone Act of 2005 a tax relief measure designed to encourage students to return to their colleges and universities in the Gulf area.

The tax relief takes the form of a temporary expansion of the education credits available for students in the Gulf Opportunity Zone (or GO Zone), which is comprised of the portion of the Hurricane Katrina disaster area that has been designated by the President to warrant individual or individual and public assistance under the Stafford Act.

Here are more details on this targeted expansion of the education credits.

**Background.** In general, for 2005, taxpayers may claim a Hope Scholarship Credit in the first two years of postsecondary education equal to 100% of the first \$1,000 (\$1,100 for 2006) of qualified tuition and related expenses, plus 50% of the next \$1,000 (\$1,100 for 2006) for a maximum of \$1,500 (\$1,650 for 2006). A Lifetime Learning Credit also is available to students enrolled in one or more courses at the undergraduate or graduate level (whether or not pursuing a degree), equal to 20% of the first \$10,000 in qualified tuition and related expenses for a maximum of \$2,000.

For purposes of the Hope and Lifetime Learning credits, 'qualified tuition and related expenses' includes tuition and fees, but charges and fees associated with meals, lodging, insurance, transportation, and similar personal, living or family expenses are not eligible for the credit.

The education credits phase out ratably for taxpayers with modified AGI (for 2005) of \$43,000 to \$53,000 (\$87,000 to \$107,000 for joint return filers). No credit at all is available for taxpayers whose modified AGI is \$53,000 (\$107,000 for joint return filers) or more.

**New law.** For tax years beginning in 2005 or 2006, the Act expands the Hope and Lifetime Learning credits for students attending (i.e., enrolled and paying tuition at) an eligible education institution located in the GO Zone. The Hope credit amounts are doubled. Thus, for 2005, it is increased to 100% of the first \$2,000 in qualified tuition and related expenses and 50% of the next \$2,000 of qualified tuition and related expenses for a maximum credit of \$3,000 per student.

For 2006, it will be 100% of up to \$2,200 (as adjusted for inflation) of qualified tuition and related expenses plus 50% of the next \$2,200 (as adjusted for inflation) of these expenses, for a maximum credit of \$3,300 per student. The Lifetime Learning credit rate is increased from 20% to 40% for a maximum credit of \$4,000.

The Act also expands the definition of qualified expenses to include books, supplies, equipment, and, for at least half-time students, room and board expenses.

It is important to note that this tax benefit is not restricted to victims of Hurricane Katrina. Students who are new to the area may also qualify. However, the Act did not change the AGI levels above which taxpayers cease to qualify for the education credits.