

4.4: Frequently Requested Tax Benefits

Learn about tax relief, benefits, and incentives.

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Earned Income Tax Credit

If you earn a low to moderate income, the Earned Income Tax Credit (EITC) can help you by reducing the amount of tax you owe. To qualify, you must meet certain requirements and file a tax return, even if you do not owe any tax or are not required to file. If EITC reduces your tax to less than zero, you may get a refund.

Who Qualifies for EITC?

You qualify for EITC if:

- You have earned income and adjusted gross income within certain limits; AND
- You meet certain basic rules; AND

You either:

- Meet the rules for those without a qualifying child; OR
- Have a child who meets all the qualifying rules for you, or your spouse if you file a joint return.

EITC has special rules for members of the military, members of the clergy and taxpayers with certain types of disability income or children with disabilities.

EITC Resources

The [Internal Revenue Service \(IRS\)](#) provides resources covering the Earned Income Tax Credit (EITC):

- Use the [EITC Assistant](#) to find out your filing status, if your child qualifies, if you are eligible, and the amount of credit you may receive.
- If you or your spouse is a nonresident alien, refer to [Publication 519, U.S. Tax Guide for Aliens](#) to find out if you qualify for EITC.

Tax Benefits for Education

Paying for college or graduate school is a big financial responsibility. To help with your expenses for higher education, there are various tax benefits available:

Credits

An education credit helps by reducing the amount of tax owed on your tax return. If the credit reduces your tax to less than zero, you may get a refund.

There are two education credits available:

- **American Opportunity Tax Credit** – This is a credit for qualified education expenses paid for an eligible student for the first four years of higher education. You can get a maximum annual credit of \$2,500 per eligible student.
- **Lifetime Learning Credit** – This credit is for qualified tuition and related expenses paid for eligible students enrolled in an eligible educational institution. It can help pay for undergraduate, graduate, and professional degree courses—including courses to acquire or improve job skills. There is no limit on the number of years you can claim the credit.

Deductions

A deduction reduces the amount of your income that is subject to tax, thus reducing the amount of tax you may have to pay.

There are several types of deductions for education:

- Tuition and fees deduction
- Student loan interest deduction
- Qualified student loan
- Qualified education expenses

Savings Plans

Some savings plans allow the accumulated earnings to grow tax-free until money is taken out (known as a distribution), or allow the distribution to be tax-free. Other savings plans allow both tax-free accumulated earnings and distribution.

There are two types of savings plans available:

- **529 Plans** – States, colleges, and groups of colleges sponsor these qualified tuition programs—authorized under section 529 of the Internal Revenue Code—to either prepay or contribute to an account for paying a student’s qualified higher education expenses.
- **Coverdell Education Savings Account** – This account was created as an incentive to help parents and students save for education expenses. Unlike a 529 plan, a Coverdell ESA can be used to pay a student’s eligible K-12 expenses as well as post-secondary expenses.

Scholarships and Fellowships

A **scholarship** generally represents an amount paid for the benefit of a student at an educational institution to aid in the pursuit of studies. The student may be either an undergraduate or a graduate. A **fellowship** is generally an amount paid for the benefit of an individual to aid in the pursuit of study or research.

- Whether the scholarship or fellowship is tax-free or taxable depends on the expense paid with the scholarship or fellowship amount, and whether you are a degree candidate.

Exclusions from Income

You may exclude certain educational assistance benefits from your income. That means that you won’t have to pay any tax on them. However, it also means that you can’t use any of the tax-free education expenses as the basis for any other deduction or credit, including the lifetime learning credit.

Help and Resources

The IRS provides comprehensive information and resources covering tax benefits for education:

- Refer to [Tax Benefits for Education](#) to compare the various benefits.
- Use the Interactive Tax Assistant to help determine if you’re eligible for educational credits or deductions, including the American opportunity credit, the lifetime learning credit, and the tuition and fees deduction.

Energy Tax Incentives

Purchasing energy efficient appliances or making energy saving improvements to your home or business can save money, in the form of tax incentives (tax credits and rebates) or sales tax holidays. Tax credits can help reduce the amount of tax you owe, while rebates can lead to cash back from your purchase.

Find out if you qualify for state, local, utility, and federal incentives:

- [Database of State Incentives for Renewables and Efficiency \(DSIRE\)](#) – Explore incentives and policies in your state that support renewable energy and energy efficiency.
- Department of Energy (DOE): Tax Credits, Rebates, and Savings – Select your state to find savings that may be available for you or your business in your state.
- [Offers and Rebates from Energy Star Partners](#) – Search for rebates on certified energy-efficient products and other special offers in your area.

- Residential Renewal Energy Tax Credit – Qualify for tax credits for buying a solar-electric or solar water-heating property for your home.
- [Sales tax holidays](#)— Find out if your state offers a sales tax holiday for buying energy efficient appliances.

Federal Tax Deductions for Charitable Donations

You may be able to claim a deduction on your federal taxes if you donated to a 501(c)3 organization. In order to deduct your donations you must file an itemized federal tax return, along with Schedule A and a form 8283 for your non-cash donations.

The amount of money that you can deduct on your taxes may not be equal to the total amount of your donations. If you donate non-cash items, you can claim the fair market value of the items on your taxes.

If you donated a vehicle, the amount of your deduction depends on if the car is used by the organization or sold at an auction. The IRS's publication "[A Donor's Guide to Vehicle Donation](#)" explains how your deduction is determined and the documents you must have to claim a deduction.

If you donated money to the charity and you received a gift in exchange, or if part of your contribution paid for a dinner, event entrance, or registration in a race, the entire amount is not tax deductible. Rather, the only part of your donation that you can deduct on your federal income taxes is the amount that is in excess of the value of the gift, dinner, or race.

Recordkeeping

Keep records of your donations to charities. You may not have to send these documents with your tax returns, but these documents are good to include with your other tax records. Some common documents include:

- Canceled check to the organization
- Credit card statement showing a payment to the organization
- Receipt from the organization
- Annual giving statement from the charity or non-profit
- Email confirmation from the organization
- Written acknowledgment for vehicle donations
- Itemized list of the items you donated
- Vehicle identification number for vehicle donations
- Signed over vehicle title
- Phone bill, if you gave a donation through a text message
- [Valuations](#) of stocks, real estate, art, or jewelry donated to a charity

There are some pieces of information that may be included in receipts and giving statements:

- Name of the organization
- Date of the donation
- Amount of the donation
- Statement that no goods or services were provided by the charity in return for your donation (if that was the case)
- Vehicle identification number (VIN) for vehicle donations

Mortgage Debt Forgiveness

Canceled debt is normally taxable to you. But homeowners whose mortgage debt was partly or entirely forgiven during tax years 2007 through 2014 may qualify as an exception. The Mortgage Forgiveness Debt Relief Act of 2007 covers key points about mortgage debt forgiveness:

- Homeowners whose mortgage debt was partly or entirely forgiven from tax years 2007 through 2014 may be able to exclude up to \$2 million.
- The limit is \$1 million for a married person filing a separate return.
- You may exclude debt reduced through mortgage restructuring as well as mortgage debt forgiven in a foreclosure.
- To qualify, the debt must have been used to buy, build, or substantially improve your principal residence and be secured by that residence.
- Refinanced debt proceeds used to substantially improve your principal residence also qualify for the exclusion.
- Proceeds of refinanced debt used for other purposes (to pay off credit card debt, etc.) do not qualify for the exclusion.

Eligibility

To determine if your canceled mortgage debt is taxable, use the [Interactive Tax Assistant \(ITA\)](#) from the IRS.

- If you qualify for the special exclusion, fill out [Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness](#), and attach the completed form to your federal income tax return for the tax year in which the qualified debt was forgiven.

Tax Relief in Disaster Situations

Major disasters and emergencies in your area affect families and businesses. The Internal Revenue Service (IRS) offers special tax law provisions to help individuals and businesses recover financially from the impact of a disaster. In a [federally-declared disaster area](#), you can get a faster refund by filing an [amended return](#) and claiming disaster-related losses on your tax return for the previous year.

The IRS provides guidance for those affected by disasters, such as how to amend tax returns or file an extension.

You may also [contact the IRS](#) for more information on tax relief in disaster situations.

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