

NC State Handling of the Education Credits in TaxWise

Background

NC instructions for the Hope and Lifetime Learning credits specify:

If you claim the Hope or Lifetime Learning tax credit on your federal return, you may claim a deduction of up to \$4,000 for such expenses on the NC State return.

In the TaxWise software for purposes of the federal return, when completing Form 8863, Education Credits, the maximum Hope Education expenses allowed is \$2,400, whereas the maximum Lifetime Learning expenses allowed is \$10,000. These entries are then transferred to Line 49 (d) of the NC return, as follows:

- The TaxWise software will **correctly transfer Lifetime Learning expenses** entered on Form 8863 of the federal return to Line 49 (d) of the NC return, up to the allowable NC maximum of \$4,000.
- However the TaxWise software will only transfer **Hope Credit expenses up to a maximum amount of \$2,400** to Line 49 (d) of the NC State return. Thus if the taxpayer has Hope Credit expense in excess of \$2,400, say \$5,500 of total expenses, for purposes of the NC State return they are entitled to deduct \$4,000. The TaxWise software in this situation will only transfer \$2,400 from Form 8863 to Line 49 (d) of the NC State return. Thus an additional \$1,600 must be added separately, for a total of \$4,000.

Hope Credit Handling on Federal Form 8863 and NC D-400, Line 49(d)

TaxWise has added an extra entry space on page 2 of Form D-400, Line 49(d). This entry space will accommodate the amount of Hope education tuitions and fees in excess of the \$2,400 entered on Form 8863. The added line and entry space is in red type below Line 49(d) and reads **"Tuition and fees not included on your Federal return."** So in the above example of total Hope education expenses of \$5,500, you would add an additional \$1,600 in the space provided. This will result in the maximum \$4,000 of Hope credit expenses being entered in the NC State return.

NC Form D-400,
Line 49(d)
Education Deduction
Hope Credit

Maximum amount of Hope Credit that can be transferred from Form 8863 is \$2,400.

Therefore in our example where \$5,500 of education expenses is paid, \$2,400 gets carried over from Federal Form 8863, and \$1,600 **must be entered** below Line 49(d), for a maximum of \$4,000.

48	Contributions to North Carolina's national college savings program, NC 529 plan	0.	
49	Other deductions from Federal taxable income		
a	Federal jobs credit	0.	
b	Amount of itemized deductions reduction due to Form 8396	0.	
c	If you were an unpaid volunteer firefighter or an unpaid volunteer rescue squad worker, you may deduct \$250, if married filing a joint return each spouse may deduct \$250, that qualifies for the deduction	0.	
	Check who qualifies for the deduction Taxpayer: <input type="checkbox"/> Spouse: <input type="checkbox"/>		
d	Tuition and fees that would have been allowed as a Federal deduction but were claimed on the Federal return under the Hope or Lifetime Learning credits	4,000.	
	Tuition and fees not included on your Federal return	1,600.	
e	Other deductions. See instructions	0.	4,000.