

American Opportunity Tax Credit Question and Answer

Question

A parent claims a dependent college student on the tax return. They receive a Form 1098-T that shows the student is at least half-time. The grandparents paid all the tuition stated on the 1098-T **directly to the college**, made on behalf of the student. Are the parents still allowed the American Opportunity if they meet the other qualifications?

Yes — you can generally still claim an education tax credit (the American Opportunity Tax Credit or Lifetime Learning Credit) for the 2026 tax year even if someone else paid your tuition, as long as the payment was made on your behalf and you (not the third party) are the person entitled to claim the credit. When a third party — such as a parent, grandparent, or friend — pays qualified tuition directly to the school, the IRS treats the student as having received the money and then paid the school. Who actually claims the credit then depends on whether the student is claimed as a dependent.

How the Third-Party Payment Rule Works

Under Treas. Reg. §1.25A-5(b)(1), qualified education expenses paid by a third party directly to an eligible educational institution on a student's behalf are treated as paid by the student. From there, two rules determine who claims the credit (Form 8863 Instructions; Pub. 970, ch. 2–3):

If the student IS claimed as a dependent: All of the student's qualified expenses — including those a third party paid — are treated as paid by the person who claims the student as a dependent. Only that person (e.g., a parent) may claim the credit. The dependent student cannot.

If the student is NOT claimed as a dependent: The expenses are treated as paid by the student, and only the student may claim the credit — even though a third party actually paid the school.

In other words, the third-party payment never disqualifies the credit; it simply "flows" to whoever is the proper claimant under the dependency rules.

Example

A grandparent pays \$4,000 of tuition directly to a university for their grandchild.

If the grandchild is claimed as a dependent by a parent, the parent claims the education credit as if the parent paid the \$4,000 (Treas. Reg. §1.25A-5(b)(3)).

If no one claims the grandchild as a dependent, the grandchild (the student) claims the credit on their own return.

In neither case can the grandparents who actually wrote the check claim the credit, because the grandchild is not the grandparent's dependent.

Key Eligibility Requirements (TY 2026)

To claim either credit, the standard rules still apply:

Eligible student and institution. The student must be enrolled at an eligible educational institution and meet the criteria for the AOTC (at least half-time, in a degree program, within the first four years of postsecondary education, no disqualifying felony drug conviction) or the LLC (one or more courses to obtain or improve job skills) — IRC §25A(b), (c).

Not claimed as a dependent yourself. You cannot claim the credit if you are claimed as a dependent on someone else's return; in that case the person claiming you takes the credit.

Filing status. You cannot use married filing separately.

Income limits (MAGI). The credit phases out for MAGI between \$80,000 and \$90,000 (single, head of household, or qualifying surviving spouse) and \$160,000 and \$180,000 (married filing jointly). No credit is allowed at or above \$90,000 / \$180,000.

Form 1098-T. You generally must have received Form 1098-T from the institution, and you should keep it (plus proof of payment) to substantiate the credit. Use the amount actually paid (or treated as paid) for qualified expenses — which may differ from Box 1.

New for 2026 — SSN requirement (don't miss this)

Beginning with the 2026 tax year, the person claiming the AOTC or LLC must have a Social Security Number (SSN) valid for work, issued before the due date of the return (including extensions). In addition, if the person claiming the credit is not the student (for example, a parent claiming the credit for a dependent), the student must also have a valid SSN to qualify. This is a new requirement enacted for 2026 and can disqualify an otherwise-valid claim, so confirm SSNs before filing.

Credit Amounts (TY 2026)

American Opportunity Tax Credit (AOTC): Up to \$2,500 per eligible student (100% of the first \$2,000 plus 25% of the next \$2,000 of qualified expenses). Up to 40% (max \$1,000) is refundable.

Lifetime Learning Credit (LLC): Up to \$2,000 per return (20% of up to \$10,000 of qualified expenses). Nonrefundable.

No Double Benefit

The same expenses cannot be used for more than one tax benefit. For example, expenses used to claim an education credit cannot also be used for a tax-free distribution from a 529 plan or Coverdell ESA, and you must reduce qualified expenses by any tax-free scholarships or grants (IRC §25A; Pub. 970).

Bottom Line

Having someone else pay your tuition does not cost you the education credit. The third party's direct payment to the school is treated as paid by the student, and the credit is claimed by the student — or, if the student is a dependent, by the person who claims that dependent. **Just make sure the proper claimant meets all eligibility rules, including the new 2026 SSN requirement, the MAGI limits, and the Form 1098-T substantiation requirement.**

Sources:

Treas. Reg. §1.25A-5(b)(1) and (b)(3) — third-party payments treated as paid by the student

IRC §25A — American Opportunity and Lifetime Learning Credits

IRS — Instructions for Form 8863 (2025) — "Who can claim a dependent's expenses" and "Expenses paid by a third party"

IRS — Publication 970, Tax Benefits for Education — chapters 2–3; "What's New for Tax Year 2026" (new SSN requirement)

IRS — Education Credits: AOTC and LLC — credit amounts, MAGI limits, third-party payer note

Disclaimer: the information provided does not, and is not intended to, constitute legal advice. Verify all important information.