Tax Tips You Can Use Nov 2009

Taxes and College: Savings, Deductions, and Credits

By Kathleen Crawford, EA

By now all colleges have started classes. Most students are more worried about midterms than tuition bills. But too soon taxes will need to be filed and accounting done. Congress has put a number of tax programs in place to help students and their parents better afford college expenses. This article will list some of the most common tax programs and what financial help to expect. First, there are savings programs for youngsters to have money for college when they are ready. There are tax deductions and credits for current year college expenses. The credits are not just for full time students. People taking courses to learn new skills or upgrade their skills can qualify for credits as well.

Many people have heard of the 529 college savings plan. There are actually two main plans available to save for college. The first is a federal plan, The Coverdell IRA or Educational Savings Account (ESA). This account has no tax advantage to the donor, but all of the qualified distributions for the student are tax free: both the original and growth amounts. The law was changed so that both college students and K to 12th students can make use of this money. The state plan, The Qualified Tuition Program (QTiP) or 529 plan, allows contributions which can be deductible on the state return. Each state has its own rules. Although the student can use the money in any state, only eligible contributions to the Oregon plan can be deducted on Oregon returns. This program was changed in the 2009 law to allow computers, internet, and educational software to be purchased with 529 funds by the student in addition to tuition, books, room and board.

One of the best credits available today is the Hope Credit for college tuition. Until 2009, it was only available for the first two years of college. It allowed 100% of the first $1000 and 50% of the next $1000 of tuition expenses to be used as a credit on an individual tax return. That was $1500 of credits against tax. It was then raised to a maximum of $1800. The 2009 law raised and broadened the credit. It is now 100% of the first $2000 and 25% of the next $1000, for a total possible credit of $2500. In addition, it is available for four years of college instead of two. That is a big change for families and students struggling to pay for college.

The Lifetime Learning Credit is for the rest of us. It allows a credit of 20% of the tuition for a course taken from an accredited school. So a taxpayer taking a course in Spanish to better communicate on the job or the accounting course to get that promotion can get a credit of 20% of her income tax bill. The law also allows certain tuition to be deducted from income, so many times it is important to choose which way to go by optimizing the credit versus the deduction.

All of these tax programs have qualification, exclusions, limits, and phase outs. You should see your tax advisor to ensure that you are planning for and getting the best tax advantage for school expenses. As a final note, grandparents can set up ESA and 529 accounts for grandchildren. The federal limit is $2000 per year for an ESA. Starting an account for a baby while it is still too young to care about toys can make a big difference when the child starts college.

The Jacksonville Tax Lady, LLC can be reached at 541-899-7926 and is located in beautiful, historic Jacksonville at 610 N. Fifth Street across from the Pony Espresso.