

2008 TAX BENEFITS FOR HIGHER EDUCATION

Disclaimer: This information is intended to provide a cursory summary of four provisions of tax benefits for higher education, and is not intended as legal or tax advice or to be inclusive of all relevant provisions, rules, and circumstances. Please consult a qualified tax attorney before applying this information.



1. HOPE AND LIFETIME LEARNING CREDITS

- a. Hope Credit:** A tax credit equal to 100% of the first \$1,200 (\$2,400 in Midwestern disaster area) and 50% of the next \$1,200 (\$2,400 in Midwestern disaster area) of qualified undergraduate higher education expenses incurred for the taxpayer, spouse, or dependent who is claimed as a dependent on the taxpayer's return for the first two years of such student's college career; can take for multiple students in one tax return.
- b. Lifetime Learning Credit:** A tax credit equal to \$2,000 or 20% (\$4,000 or 40% 400 in Midwestern disaster area) of the first \$10,000 of qualified higher education expenses incurred for the taxpayer, spouse, or dependent who is claimed as a dependent on the taxpayer's return; can only take a maximum of \$2,000 credit per tax return regardless of the number of eligible students.
- c. Phase Out:** The above credits are phased out for single filers whose income is between \$48,000 and \$58,000; for married joint filers the phase out occurs between \$96,000 and \$116,000.
- d. Filing Status:** The above credits are not available for taxpayer who is married filing a separate return.
- e. Effect on Need-Based Aid:** No effect or reduction on FM and IM.

2. COVERDELL EDUCATION SAVINGS PLAN

- a. The maximum contribution per beneficiary** (under age 18) is \$2,000 per year. Funds will grow tax deferred and gains are federal income tax-free if used for qualified education expenses of the beneficiary. Funds must be used by the beneficiary's age 30. Distributions for other needs will subject gains to a 10% excise tax and ordinary income tax.
- b.** Cannot take the tax-free earnings benefits on the same expenses for the Hope or Lifetime Learning Credits.
- c.** Qualified education expenses can include elementary, secondary, and higher education costs, including computers, equipment, books, and supplies if they are required or provided by the school.
- d. Phase Out:** Contributions are phased out for donors who are single filers whose income is between \$95,000 and \$110,000, and joint filers between \$190,000 and \$220,000.
- e. Effect on Need-Based Aid:** Assets are not considered an asset of the student beneficiary for FM purposes but instead are considered an asset of the student's parent. Both the asset and income are considered as a student's and will reduce need-based aid eligibility under IM.

3. SECTION 529 PLANS

- a. Both prepaid tuition and savings plans sponsored by states are available.
- b. Account grows tax-deferred and earnings are federal income tax free if used for the beneficiary's qualified higher education expenses.
- c. Cannot use tax-free portion of earnings for qualified expenses covered with education IRA tax-free distributions or Hope/Lifetime Learning credits.
- d. Maximum contributions and account ceilings are based upon the state that sponsored the plan.
- e. **Effect on Need-Based Aid:** Section 529 prepaid and savings account balances are considered by the FM as an asset of the parents. Both are considered on IM as well, including 529 plans of siblings, as a parental asset.

4. FEDERAL TAX DEDUCTION

- a. Payers of qualified higher education expenses can deduct for the purpose of federal income tax up to the maximum allowed deduction for expenses paid during the tax year.
- b. Maximum deduction for 2008 is \$4,000 and is taken before the AGI as an "Adjustment".
- c. Phase Out: Single taxpayers with income below \$65,000 and joint filers with income below \$130,000 can claim the full deduction. For 2008, the deduction falls to \$2000 if single taxpayer's income is between \$65,001 and \$80,000 and joint income between \$130,001 and \$160,000.
- d. Cannot take both the deduction and education credits in the same year for the same student.
- e. **Effect on Need-Based Aid:** Since federal income tax is a deduction against income for the purpose of determining aid eligibility under both the FM and IM, the reduced federal income tax will increase the EFC in the subsequent year.