

Help With Education Costs

Virtually all taxpayers can get help to pay for education costs in the form of tax credits and/or special deductions.

Students and their parents can capitalize on a number of different education benefits. For example, the maximum amount that can be contributed to a Coverdell Education Savings Account (formerly an Education IRA) each year is \$2,000. Any family member with adjusted gross income below \$190,000 in a joint return or \$95,000 in a single return can contribute toward the \$2,000 maximum annual addition to a Coverdell account, where the contribution will grow tax-deferred, until withdrawn for any of a liberal list of education costs -- even private elementary and secondary tuition. At higher income levels, the maximum contribution is reduced.

State-sponsored prepaid tuition plans (Section 529 plans) offer an attractive way to accumulate money to pay higher education costs. Both public and private institutions sponsor tuition savings plans. Parents, grandparents, or other interested parties typically contribute up to \$12,000 per year each to such plans, and with income accumulating tax-free, those plans can grow to be significant sources of funding for educational purposes. Funds withdrawn from Section 529 plans are totally free from federal income tax if they are used to pay qualified higher education expenses.

Hope and Lifetime Learning credits are also available and several funding sources can be coordinated in order to pay as many costs as possible with tax-favored dollars. The tuition and fees deduction allows up to \$4,000 of education expenses that are not paid from a Section 529 plan or a Coverdell Account and aren't being used for the Hope or Lifetime credit. This deduction is available whether the taxpayer itemizes deductions or not, but begins to phase out at adjusted gross income levels in excess of \$65,000 (\$130,000 on a joint return).

Planning education funding for yourself, your children, or your grandchildren may involve coordinating several different tax law provisions -- including the tax-free redemption of Series E bonds to pay higher education costs, and you might want some help.

We have studied these provisions and are prepared to assist you. Just give us a call to arrange an appointment.