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"Overview, Coordination of, and Updates on Existing Programs Including a New But Limited Tax Break Opportunity for Educational Expenses as a Result of the Economic Growth and Tax Relief Reconciliation Act of 2001"

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Overview, Coordination of, and Updates on Existing Programs Including a New But Limited Tax Break Opportunity for Educational Expenses As A Result of the Economic Growth and Tax Relief Reconciliation Act of 2001

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Abstract

Despite the relatively low inflation rate of the last decade, education costs have been continually climbing and are expected to continue to increase at a rate well exceeding inflation. Many parents had assumed, thanks to their rocketing portfolios of the 1990's, that sufficient funds would be available for their children's (or their own) education. Unfortunately, the decline in the stock market in 2001-2002 has caused a certain amount of urgency in many of the parent's as their college portfolios dipped (from the "529" programs to their own personally managed portfolios) rather dramatically.

And yet, these are the fortunate ones who have been able to set aside college funds. Many parents and individuals, particularly the middle class[1], are simply not blessed with the necessary financial resources and are scrambling for any possible way to maximize (or simply provide for) funding for education- tax wise or otherwise. This paper examines enhanced planning/execution opportunities as a result of recent Code changes as a result of the passage of H.R. 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001. The paper also attempts to point out techniques that may not always be considered, including new deductions that are only available for a limited time, and finally provides an overview of non tax programs that can assist the educational funding process.

Tax Related Educational Assistance

Congress has generously elected to provide various tax assistance for higher (in some cases, even elementary and secondary) education. While many of these tax credits or deductions do not cover the full cost of education, most taxpayers will agree that any amount of help is appreciated.

Before a detailed examination of the tax related programs and benefits is offered, certain definitions and limitations must be understood.

Qualified Higher Education Expenses

As is typical for virtually all tax related calculations, the Code defines and includes/excludes certain costs that Congress deems eligible or ineligible. Educational related deductions are no different, resulting in certain "Qualified Higher Education Expenses[2]." While generally basic

[1] Arguably the lower class is provided for via various financial aid methods, including grants, while presumably the upper class has more than sufficient funds to pay for their children's education.
[2] IRC 25A(f)(1); Prop. Reg. §1.25A-2(d)(5)

costs, particularly tuition and *mandatory* (academic and nonacademic) fees (excepting housing/dining costs) paid to a eligible institution of higher education are included in such definition, certain credits and deductions offer a more *expanded* range of possible costs covered under the term "qualified higher education expenses" and will be so noted separately. For example, some specific deductions, credits or tax deferred programs will expand this rather narrow definition to include books, computers, housing and the like.

Coordination of Benefits

As is also typical of tax computations, a "double benefit" for any deduction or credit is not allowed[3]. For example, a cost otherwise eligible to be used as an educational tax credit cannot also be used for a tax deduction. Also, if other funds (such as an academic scholarship which is otherwise tax exempt income) have paid any tuition and fees (i.e., the qualified higher education expenses), such scholarship amount must be deducted from the qualified higher education expenses before any computations may occur. Similarly, if a home equity loan were taken out for educational purposes, the total interest deduction could not be deducted if a Hope scholarship credit was elected.

However, while a double benefit is not allowed, there generally is no requirement that only one program must be used, and as result the taxpayer can maximize or optimize each program (or elect to forgo certain programs)[4].

TAX RELATED OPPORTUNITIES
IRA EDUCATIONAL SAVINGS PLANS

Previously, limited attention had been given to Educational IRAs, now known as Coverdell Education Savings Accounts, due to the very limited amount of money that originally could be contributed annually ($500/beneficiary). When combined with losses of other potentially more valuable tax attributes (i.e., if funds from the IRA's were used, the Hope or Lifelong learning credits are unavailable; the possibly small amount of sheltered income resulting from such small contributions, etc.), these accounts were usually previously ignored expect for grandparents and parents with very young children.

Further, these accounts are similar to a Roth account in that the contributions are ***not*** immediately tax deductible to the contributing party. Thus, the loss of other tax benefits to shelter rather nominal income was less than appealing particularly when the funds sheltered would arguably not be significant in value versus the total cost of education and the otherwise lost deduction/credit.

[3] These prohibitions are usually found in each major grouping of a credit or deduction, for example, under Sec. 529 plans, such prohibitions are referred to as "Coordination with [credit or deduction name]," *see* IRC § 529(c)(3)(B)(v), (vi).
[4] For example, the Hope or Lifelong Learning Credit may be opted out under IRC § 25A(e).

Withdrawals generally were originally treated as tax free if properly used for educational expenses (technically the income – as opposed to the contributed principal- portion of the account was treated as excluded).

As long as the distributions from the plans are less or equal to the qualified higher education expenses (notably which here ***include*** room and board), no amount should be taxable to the recipient.[5] The original principal contribution remains untaxed, as it is a return of capital, and the income (if any as a result of market conditions!) is excluded from taxation. However, if the amount distributed exceeds the qualified higher education expenses, then the income pro rata amount of the amount distributed does become taxable to the recipient.

Congress, through the Economic Growth and Tax Relief Reconciliation Act of 2001, has raised the annual limitation on nondeductible contributions to $2000 per year (but generally requires that contributions cease when the beneficiary is aged 18.[6] These accounts are far more attractive now and balance out the fact that other tax benefits are cut back if the IRA is used to fund educational expenses.

Notably, this is a program generally available to a higher income individual or couple as contrasted to other tax credits or deductions. The phase-out upper limits of AGI are achievable by more taxpayers, ranging from $110,000 (beginning at $95,000) for a single person to $220,000 (beginning at $190,000) for married couples filing a joint return[7]. This may be the only opportunity (of course, recall there are certain other opportunities such as ***investments*** in 529 plans/ state qualified tuition plans) that the taxpayer may have for a tax advantaged educational planning that is actually reflected on their tax return.

The Coverdell Education Savings Accounts can now be used to pay qualified expenses for elementary, secondary public, private or religious school expenses[8], as well as higher education qualified expenses, including not just the required tuition and fees, but also purchases of computer equipment, books, supplies, and room and board.[9] This expansive list of eligible expenses, combined with the higher contribution amount, should stir renewed interest in this now more viable method.

However, as mentioned previously, if proceeds from the Coverdell Education Savings Accounts are used for funding purposes, the amount paid from such IRA cannot be used as a deduction or credit due to the coordination of benefits. But recall that a person using such an account, in most cases, is probably in a higher tax bracket and probably would have not have been allowed to use such deductions or credits in the first place. Of course, the taxpayer will need to assess the most viable tax strategy to determine the optimum use of the available funding.

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[5] IRC § 530(d)(2)(A)
[6] IRC § 530(b)(1)(A)
[7] IRC § 530(c)
[8] IRC §530(b)(4)
[9] IRC § 530(b) et seq.

QUALIFIED PREPAID TUITION PLANS

The various states have implemented unique plans for interested citizens and non residents to invest in what basically amounts to a ***prepaid tuition*** program. (Note: the more commonly known state sponsored "529 plans" that are usually affiliated with mutual fund companies/states are not discussed herein.) Congress recently changed some attributes of the prepaid tuition plans.

Prior to 2001, the "earnings" - or perhaps more precisely, payments in excess of principal contributed- on such investments managed by the states that was paid out in the form of qualified higher education expenses (generally tuition and fees) were taxable to the student benefiting from such distributions. In a major change beginning in 2002[10], the ***entire*** amount distributed (principal, earnings/income, and any other amount paid by the plan) is tax free assuming such funds are used for qualified higher education expense purposes[11]. Unfortunately, the original "principal" contribution, or money used to fund these accounts, is not tax deductible.

"Unqualified" uses of or access to the funds would continue to be taxable, for example: in a situation where the parent who set aside the funds decided to pull the funds out and give the money outright to the student or keep the funds for themselves, in such case all of the income accrued and paid would then be taxable to the recipient. Conversely, if kept in the plan, and used for college expenses, all distributions will be tax free to the recipient, whether or not if the distributions are principal ***or*** earnings.

These plans, while on first glance might seem expensive (particularly when there are no immediate tax benefits from contributing to the plan), are locking in tuition and mandatory fees at the then current rates at the time the contract is purchased. Further, most plans guarantee that a certain number of credit hours will be paid (or redeemed) no matter what the tuition rates are at the time of the student's matriculation. This is not a typical investment view. While generally from an investment analysis we are interested in rates of returns, here we are more concerned with what the cost of education is expected to be at the time the student enrolls versus the initial payout cost.

During the roaring stock market, these types of plans were often ignored, as parents and others felt they could do better than the underlying assumptions of the plan. And perhaps they did in some cases. With falling interest rates, stock market declines, ever increasing college tuition and fee rates, these plans are exceptionally attractive today, considering they guarantee these college hours will be paid no matter the underlying investment return by the state on the funds paid into the plan. In other words, the purchaser is guaranteed by the state that the child will have a college education's basic tuition and mandatory fees paid in return for approximately "today's" tuition and fees rates, no matter the rate of return (or negative rate of return) of the underlying plan. For many parents, once they look beyond the typical investment analysis, see these plans as highly advantageous. In fact, while states often have a payout option for the purchase of the plans, many persons borrow funds to pay for these prepaid plans.

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[10] IRC § 529(c)(3)
[11] IRC § 529(c)(3)(B)

One very important and often overlooked fact is a contribution to a 529 plan (either the prepaid tuition program or the more commonly known 529 "mutual fund type" of account) may actually be (in a married couples point of view) 2 x $11,000 x 5 or **$110,000** as a lump sum, and the amount in excess of the $22,000 (2 x $11,000/yr) is NOT subject to gift tax.[12] The code allows the donor to in essence gift 5 years simultaneously. However, subsequent gifts to the same person are not eligible for such non gift tax treatment until either the 5 year period has passed or if the gift tax allowance per year (currently $11,000) has increased.

TAX CREDITS

Probably the most widely used and appreciated tax benefits used by many taxpayers are the Hope Credit and the Lifelong Learning Credit.[13] Recall a "credit" is a direct dollar for dollar reduction of any tax liability owed to the US Treasury. However, as valuable as these credits are, the credits are limited in amounts and availability.

The Hope Credit, dependant upon factors, is generally limited to approximately $1,500 per student per year for the Hope credit, and this amount is available to only the first two years of the student's college years.[14] More than one person per household may receive this benefit at a time assuming other requirements are met.[15] Certain other qualifying requirements must be met, including the requirement the student be at least a half time student[16], which basically excludes any person taking just one course. Further, the Hope Credit follows the more conservative Qualified Higher Educational Expenses guideline, which limits the expenses to tuition and fees, and does not include books, housing and supplies.

Notice the Hope Credit does ***not*** gauge progress based on ***scholastic*** progress, but rather a strict 24 month time frame.[17] For example, a student may still be considered academically a sophomore after two years, but would be ineligible for the Hope Credit.

As most academic programs are of a minimum of four years (or more!), Congress does allow another credit- the Lifelong Learning credit, which previously had a limit of 20% on the first $5,000 of qualified higher education expenses, or a maximum tax credit of $1,000. After tax year 2002, this amount is raised to a maximum qualified higher education expenses "base" of $10,000, and as a result a *new* maximum tax credit will be available of $2,000[18]. While this certainly is an improvement, it still represents only 20% of the college costs being reflected in an available credit against taxes owed (assuming the expenses do not exceed $10,000). There is no similar upgrade of the Hope Credit for higher base amounts. Unfortunately, only one lifelong learning credit is available per taxpayer (i.e., it is not based on the "per student" rationale of the

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[12] Prop. Reg. § 1.529-5(b)(2)(i)
[13] According to IRS Table 3.3- 1999, out of 127,075,145 individual tax returns, 6,436,654 returns (about 5.06%) availed themselves of the credit, for a total dollar amount of credit of $4,772,443,000.
[14] IRC § 25A(b)(2)
[15] IRC § 25A(a)(1)
[16] IRC § 25A(b)(3)(B)
[17] IRC § 25A(b)(2)
[18] IRC § 25A(a)(2); IRC § 25A(c)(1)

Hope Credit), and thus only a maximum family credit, beginning after 2002, is \$2000, and \$1000 prior to 2003[19].

A significant limiting factor is that both of these credits have a phase out level beginning at Adjusted Gross Income (AGI) levels of \$41,000 and \$82,000 (if married,) with the credits totally phased out if AGI exceeds \$51,000 (single) or \$102,000 (if married).

A student who falls below the half time requirement is ***excluded*** from these benefits. For example, a student who is in high school, taking one college level course per long semester, falls below the mandatory half time load requirement of the credits. Similarly, an adult who is taking only one course for their own interest is excluded. As a result, the student's parent/taxpayer cannot take the ***credit*** unless the student had enrolled for at least half time during at least part of the calendar year. Therefore, in such situations, other options must be explored which generally might include the "deduction" approach noted below.

DEDUCTIONS- A NEW BUT LIMITED TIME OPTION ALONG WITH SEVERAL EXISTING OPTIONS

General Educational Deduction:

A new and potentially valuable education expense relief, dependant upon the taxpayer's unique situation, is the new, but somewhat limited, IRC § 222(b)(1) deduction.

This education tax relief is a tax *deduction*[20], as opposed to a tax *credit*. While generally we prefer tax credits, which generally represent dollar for dollar reductions in the tax owed, in some cases it may be to the taxpayer's benefit to use the new deduction as opposed to the tax credit. Notice that the tax credit may be opted out by the taxpayer.[21]

Of most importance, there is no requirement for the student to be at least a half time student in order for the taxpayer to avail themselves of this deduction[22]. However, the expenses must still be qualified tuition and education expenses (and here the more conservative version).

The deduction is **not** an itemized deduction (i.e., a type of Schedule A type of deduction), rather, it is a so called "adjustment to gross income" or "AGI," commonly known in tax language as an "above the line" deduction.[23] For reference, other types of deductions for AGI are the deduction for IRA's and similar retirement type of accounts.

Once again, there are limitations on the level of income a taxpayer may have in order to avail themselves of the deduction. Interestingly, there is not a phase out of these amounts as there are

[19] IRC § 25A(c)(1)
[20] IRC § 222(a)
[21] IRC § 25A(e)
[22] IRC § 222(d)
[23] IRC § 222(b)(2)(C)

in the Hope or Lifelong Learning credits. Generally the taxpayer's adjusted gross income cannot exceed $65,000 (single) or $130,000 (married joint)[24].

Notice that these amounts are in excess of the phase out limits of the Hope or Lifelong Learning credits by approximately an increase of at least $14,000 ($65,000- $51,000 max) and $28,000 ($130,000 – $102,000 max), which should allow a significant, but still limited, number of taxpayers to avail themselves of this option.

Another significant limitation is the dollar "deduction" allowable. In general, for the years 2002 and 2003, the maximum amount that can be deducted is $3,000[25], while for the period of 2004 and 2005, the maximum amount that may be deducted from gross income is $4,000.[26] This amount is the total possible deduction for the family unit despite the number of students involved, unlike the credits which are based per student.

Yet another limitation is the lifetime of the enabling legislation's statute. The total life of this deduction is tax years 2002- 2005, or four short years. The code specially notes termination after tax year December 31, 2005.[27]

Assume the earlier discussion of the person taking one course, which is below the required one half time status of the credit requirements. In such a case, if only the credits were available, assuming eligible expenses were approximately $1,000, the total amount would be lost.

Conversely, if the deduction is calculated, the benefit to the taxpayer should be based on the taxpayers applicable tax rate, which for arguments sake, we will assume is in the 27% rate, the tax benefit would be $1000 * 27% or $270.

So, instead of the taxpayer bearing the entire weight of the educational expenses, the taxpayer has at least recovered a reasonable amount of cost here before unattainable.

When the student is at least a half time student, the taxpayer should perform alternative calculations to determine which is the most advantageous to their unique circumstances. For example, recalculation would be appropriate where the parent/taxpayer is still within the thresholds of income required by the credits.

Assume the taxpayer child is eligible for the Hope credit, and has $3000 of qualified higher education expenses. Under this calculation, the Hope credit would generate a tax credit of $1,500. The $3,000 as an adjustment to AGI would generate a reduction of taxes, again assuming a 27% tax rate, of $810. In this case, it would not make sense to use the deduction.

Changing the facts somewhat, if the student was only eligible for the Lifelong learning credit, the calculation would change as follows:

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[24] IRC § 222(b)(2)(A)
[25] IRC § 222(b)(2)(A)
[26] IRC § 222(b)(2)(B)
[27] IRC § 222(e)

$3000 *.20% = $600 tax credit.

A comparative calculation, using a deduction approach, shows the calculation would approximate the following result:

$3,000 * .27 (tax rate) = $810, or a $210 additional savings versus the tax credit approach. Of course, if the person is in the 15% tax rate, the results would be vastly different yet again:

$3000 * .15 (tax rate)= $450, compared to the tax credit of $600, which would be preferable by $150. As is evident, the tax rate of the client is of paramount importance in the calculation and will determine which method will be used.

Assuming one student (only one student allowed for the Lifelong credit), various comparisons are drawn in the following chart. Also assumed is a situation where a student is less than one-halftime.

Qualified Amt	***Hope Credit***	***Lifelong***	***Ded (27%)***	***Ded (15%)***
$10,000	$1,500	$2,000	$2,700	$1,500
$5000	$1500	$1000	$1,350	$750
$4000	$1500	$800	$1,020	$600
$3000	**$1500**	**$600**	**$810**	**$450**
$2000	$1500	$400	$540	$300
$1000	< ½ time	< ½ time	$270	$150

STUDENT LOAN INTEREST

Student Loans are a fact of life for many students and their parents. As a result of the IRC of 1986, personal interest, including student loans, had not been deductible. In recent years there has been the availability of the student loan interest deduction in a limited manner. A deduction for AGI up to $2500 (this amount has not changed) is now allowed for the person legally obligated to make the payments, as long as that a person is not a dependent of another, but the deduction is no longer limited to the first 60 months of payments as long as the taxpayer's income is less than $65,000 (single) or $130,000 (married) versus a *previous* cap of $55,000 or $75,000.[28]

USE OF HOMESTEAD EQUITY

Another potential deduction sometimes overlooked is the possibility of using the taxpayer's home equity for college expenses. While only recommended for a last resort form of funding, upon obtaining a home equity loan, the interest would be deductible, but it is only a "regular" deduction on Schedule A. The taxpayer must be certain they have sufficient itemized deductions or the deduction would be lost, in addition to the fact they have encumbered their homestead

[28] IRC § 221 *et seq.*

equity. As noted before, there can be no doubling of tax benefits, that is, receiving a credit on a hope scholarship paid by such loan proceeds and then deducting the loan interest.

EMPLOYER PROVIDED FUNDING ASSISTANCE

An expanded benefit of the Economic Growth and Tax Relief Reconciliation Act of 2001 is that $5,250 of employer provided assistance may be excluded by the employee/taxpayer per year for ***both*** undergraduate ***and*** graduate studies[29]. Graduate studies had previously been excluded. A whole new class of students is now eligible for tax free assistance for higher education.

MISCELLANEOUS TAX RELATED ASSISTANCE

Payment of higher education expenses by cashing in United States Savings Bonds may allow the income there from to be excluded.[30] Unfortunately, this exclusion phases out completely for income levels above $72,600 for single taxpayers or $116,400 for married taxpayers. Teachers may deduct expenses necessary required to maintain the teacher's position.[31] And for tax years 2002 and 2003 only, the educator can deduct from AGI up to $250 of materials purchased personally for use in the classroom.[32] Generally a scholarship is excluded from income as long as it is not considered a stipend,[33] or if the amount is a "qualified tuition reduction" for an employee (or his dependants) of a higher education institution.[34]

NON TAX RELATED
GOVERNMENT/STATE BASED AID- NON TAX

While many tax saving opportunities exist, very often other forms of financial assistance must be considered. While a detailed examination of these programs is outside the scope of this paper, it would be remiss not to mention the various programs available.

Most college students and their parents are familiar with the Free Application for Federal Student Aid, commonly referred to as the "FAFSA." This application provides information to the colleges as to eligibility for financial aid, generally based on financial need. What is not often realized is that the parent(s) can do certain planning in the years prior to the completion of the FAFSA to legally maximize the amount of funding that would be available. This process generally involves making sure the student does not have an excessive amount of available resources (savings) and the like.

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[29] IRC § 127(a)(2)
[30] IRC § 135(a) *et seq.*
[31] IRC § 162.
[32] IRC § 62(a)(2)(D)
[33] IRC § 117(a)
[34] IRC § 117(d)

Non Repayment Funding Sources:

Federal Pell Grants- Based on the FAFSA information, Federal Pell Funds are generally available to students with parent's income below $40,000, although the amounts vary and are indexed based to the financial need. Usually such awards vary from $400 to a maximum (assuming funds are available) of about $3300 per year. A reduced award is available if the student is a half time student. Pell grants must be deducted from the Higher Education Qualified Expense base prior to calculations involving other tax credits or deductions.

FSEOG- The federal supplemental grant program for exceptional need students. Generally these amounts vary from $100 to a high of $4000 per year, assuming funds are available. FSEOG grants must be deducted from the Higher Education Qualified Expense base prior to calculations involving other tax credits or deductions.

State grants- many states have State Grants similar in function to the federal Pell grants, and that are also based upon the FAFSA, that is, need based. State grants must also be deducted from the Higher Education Qualified Expense base prior to calculations involving other tax credits or deductions.

Scholarships are normally based on academic achievement of the students, but there are many scholarships that are based on other factors, such as a parent's employment within a company, type of academic program being pursued, and similar such not necessarily achievement based results. While many scholarship opportunities abound at the desired college, local community sources should not be overlooked. Numerous web based sites are available for searching out such opportunities. Scholarships must be deducted from the Higher Education Qualified Expense base prior to calculations involving other tax credits or deductions.

Work-study: While it must be remembered that working as a student is a viable and often necessary alternative, in some cases it may be a detriment to the student, particularly in the first year as they become adapted too their new life. There are federal and state based programs that allow students to work on campus, and with the additional benefit of such on campus work often comes with the benefit of being able to take off for studying for exams and the like, which often is impossible in the private sector. A negative factor is that the work study counts against the total available aid available to the student, particularly the grants.

Savings and summer work savings: these funds are considered available resources and will actually be a detriment to the student when completing the FAFSA. However, they are invariably necessary to the student, and are immaterial for FAFSA purposes if the student does not qualify for federal grants or subsidized loans.

Repayment Required Sources:

Loans: Often the last financing opportunities for students and their parents, loans have become an integral portion of the financing strategy of the family. Many loan programs have limits on annual and total amounts that may be received. However, they also represent an excellent opportunity in that the loans are generally not collateralized and offer exceptionally excellent interest rates. In some cases the maker is the student, while there are also parent originated loans (PLUS loans), as well.

Subsidized- here the loan's interest is paid by the federal government until approximately six to nine months after the student has finished or quit school. These loans are need based.

Non-subsidized: here the underlying loan's interest is due immediately or may be capitalized, and is not necessarily need based.

OTHER INNOVATIVE OPPORTUNITIES

If there is a sufficient lead time before the student is to enter college, or even if there is not that much time, it cannot hurt to investigate an innovative internet based company www.Upromise.com. In general, Upromise has certain partnerships with companies that sell commonly used everyday products (or even certain major purchases), and has negotiated a return to the purchaser, into a college based fund, of a percentage of the sale. The amounts vary from about 1-10%, but seemingly average around 3%, on those eligible purchases.

The program does require that credit card information, affinity card number information (such as grocery store cards) be provided to them so they can gather this information electronically, which may be a concern to some individuals. However, it appears their site is protected at least as strong as the credit card companies, banks, and similar financial companies that transfer funds on the web. It is via this information sharing that the data base of eligible purchases is developed, which then allows the firm to obtain the funding from the partners for the eligible set aside college funds.

An interesting side benefit is that friends, relatives, and others can choose to contribute their purchase credits to a particular person, even if it is not their child, potentially vastly increasing the amount that could be set aside. Depending on the "volume" of appropriate purchases, a small or significant amount could be set aside, but it seems that the reader will agree that ***something*** available for college expenses is certainly better than nothing, particularly if the person buys the products anyway.

SUMMARY

College costs are not expected to decline in the foreseeable future, particularly with many states experiencing serious budget shortfalls. While the federal tax related assistance does not come close to approximating the total educational cost, at least some relief is available and more expansion of "qualifying educational expenses", assuming budget shortfalls do not become commonplace, should be expected. It is also clear that the earlier the taxpayer can begin, if at all, setting anything aside for the educational costs, the better off their family will be. There are significantly enhanced opportunities for this advanced planning now versus the prior tax years, and these opportunities should be exploited. Unfortunately, many taxpayers will still be forced to finance the educational process from sources other than their regular income, but even there some federal assistance might be available, such as subsidized student loans at reasonable interest rates.

References

Internal Revenue Code Sections
§ 25 *et seq.*
§ 25A *et seq.*
§ 62 *et seq.*
§ 117 *et seq.*
§ 127 *et seq.*
§135 *et seq.*
§ 162 *et seq.*
§ 222 *et seq.*
§ 529 *et seq.*
§ 530 *et seq.*

Internal Revenue Code Regulations
Proposed Reg. 1.25
Proposed Reg. 1.529

Internal Revenue Service IRS Table 3.3- 1999

Internal Revenue Service Publication 508, Tax Benefits for Work Related Education
Internal Revenue Service Publication 970, Tax Benefits for Education

Federal Free Application for Federal Student Aid Form and instructions

Sam Houston State University Financial Aid packet for students.

Internet site www.upromise.com retrieved various dates from www.upromise.com

TABLE ONE- TAX BASED PROGRAM SUMMARY

Tax Based Program	Tax Effect	Income Limitations and/or Phase-out Single	Income Limitations and/or Phase-out Married	Annual Limit	Comments
Coverdell Ed Savings Acct	W/D not taxable	$95,000-110,000	$190,000-220,000	$2,000/child	1,2
Qualified Ppd Tuition Plans	w/d not taxable	none	none	none	1,3
Hope Credit	Tax Credit	$41,000- 51,000	$82,000- 102,000	$1,500/child	1,4
Lifelong Learning Credit	Tax Credit	$41,000- 51,000	$82,000- 102,000	$2,000/taxpayer	1,5
General Education Deduction	Deduction from AGI	$65,000	$130,000	$3,000 total	1,6
Student Loan Interest	Deduction from AGI	$65,000	$130,000	$2500	9
Homestead Equity Loan	Sch. A deduction	Phase-out of Sch A	Phase-out of Sch A	Limit of Sch A	1,7
Employer Provided Assistance	Employer deduction Employee: no income	n/a n/a	n/a n/a	$5,250	8
Savings Bonds	Exclusion	$72,600	$116,400	None	10

1. No double benefit allowed.
2. More liberal in definition of Qualified Higher Educational Expenses, including housing and dining
3. Previously income from "investment" was taxable, but no longer beginning 2002
4. Credit involves first $2000 of Qualified Expenses, limited to first 24 months, must be 1/2 time or more, may include more than one student per taxpayer.
5. Credit involves 20% of first $10,000 of Qualified expenses after Hope credit expires, must be 1/2 time or greater. Only one credit for the taxpayer despite the number of students.
6. Deduction is maximum no matter number of students involved, need not be 1/2 time or greater
7. Dependent upon taxpayer income and other Schedule A deductions, this deduction may not be available.
8. Now includes graduate hours
9. No longer limited to 60 months
10. Requires Form 8815

EXCLUDES SEC. 529 "MUTUAL FUND" TYPE OF ACCOUNTS

TABLE TWO- FEDERAL AID BASED PROGRAMS

Federal Aid Based Program	Type of Program	Income Limitations	Approximate Benefit
Federal Pell Grant	Grant	FAFSA need, <$40,000	$400-3,300/yr
FSEOG	Grant	FAFSA exceptional need	$100- $4,000/yr
Work Study	Work	FAFSA need determination	approx 10- 15 hrs week
Federal Stafford Loans	Subsidized loan	FAFSA need based	$2625/yr < 30 hours $3,500/yr 31- 60 hrs $5,500/yr 60+ hrs $8,500/yr graduate students maximum $23,000 undergrad Maximum $65,000 undergrad/grad
Federal Perkins	Subsidized Loan	FAFSA need based	$3,000/yr undergrad $5,000/yr grad (exceptional) Maximum $15,000 undergrad Maximum cumulative $30,000
Federal Unsubsidized Stafford Loan	Unsubsidized	Not need based Interest begins immediately	same as Federal Stafford Loan
Federal Parent Loan for Undergraduate Students	Unsubsidized	Non need based Interest begins immediately	Cost of education less other aid/resources Usually replaces the parent's expected financial contribution