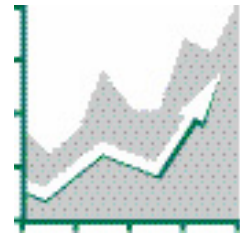


# Financial Adviser

## A Summary of the Federal Tax Benefits Associated With Higher Education Costs



There are a number of different tax benefits available to taxpayers who are currently paying higher education costs or who wish to save for future costs. Each of the available tax benefits has their own set of qualifications and phase-out income limitations. Generally, you cannot claim more than one benefit for the same qualifying education expense.

### Tax Credits

A "tax credit" is a dollar for dollar tax savings, which is more beneficial than a tax deduction.

#### *American Opportunity Credit*

This education tax credit is a new credit, which was created by the American Recovery and Reinvestment Act. It modifies the current Hope Credit and will be available only for the 2009 and 2010 tax years. The maximum credit available per student is \$2,500 of qualified educational expenses paid during the tax year or during the first three months of the following year. Qualified education expenses include tuition/fees required for enrollment, course-related books, supplies and equipment for students who are enrolled at least half-time at an eligible educational institution (for example, a college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program).

You must reduce your expenses by any tax-free educational assistance received. The credit is available for the first four years of post-secondary education, including any earlier years when the Hope Credit was claimed. The exciting aspect of this credit is that up to 40 percent of the credit may be refundable. This means that if your tax credit exceeds the amount of tax

owed, you will receive the remaining credit as a refund (not to exceed \$1,000).

#### *Hope Credit*

The Hope Credit has been replaced by the American Opportunity Credit for most taxpayers beginning in 2009. However, a revised Hope credit is available for students meeting special rules for the Midwestern disaster areas or those who choose not to claim the American Opportunity Credit.

#### *Lifetime Learning Credit*

The Lifetime Learning Credit is the most liberal in terms of what types of education qualifies for this credit. All years of postsecondary education and courses attended to acquire or improve job skills are eligible. The maximum credit available per student is \$2,000 (\$4,000 for a student who attends an eligible educational institute in a Midwestern disaster area). Like the Hope Credit, the qualifying educational expenses for the Lifetime Learning Credit are only for tuition and fees required for enrollment and additional fees are eligible for students attending Midwestern disaster area institutions. This credit is not refundable — it will only apply up to the limit of the federal income tax that you owe.

#### *Deductions*

If you are not able to benefit from the tax credits described above, a maximum deduction of \$4,000 in tuition and fees is available. This deduction is an adjustment to your income (before taxes).

### Qualified Tuition Program

#### *529 Plans*

529 Plans are designed to allow you to contribute to an account or prepay a student's qualified

education expense at a postsecondary institution. While these contributions or prepayments are not allowed as a deduction on your federal return, they may be allowed on your state (Pennsylvania allows a maximum deduction of \$13,000 per beneficiary, per taxpayer). Distributions from the plan for qualified education expenses are generally not taxable. Earnings on contributions that are distributed for qualified education expenses are excluded from income only to the extent needed to pay for the qualified expenses. Qualified expenses for this program include tuition/fees, books, supplies, purchase of computer technology, expenses for special needs beneficiaries and room and board costs no more than the allowance as determined by the institution or actual amount charged.

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