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Education Provisions

The recently enacted Economic Growth and Tax Relief Reconciliation Act 2001 contains several provisions that add to the education incentives provided under current law.

HOPE And Life-Time Learning Credit

The HOPE credit is per student and may only be used for the first two years of post-secondary education. The maximum that may be claimed per student is \$1,500, depending on the AGI of the taxpayer. The Life-Time Learning Credit is per taxpayer for undergraduate, graduate and professional degree courses for an unlimited number of years. Through the year 2002, the credit is 20% of tuition fees, per family or \$1,000, again depending on the taxpayers AGI. After 2002, the Life-Time Learning credit will be 20% of \$10,000 of tuition/fees or maximum of \$2,000.

Education IRA

The tax law currently allows a taxpayer to make nondeductible contributions to an Education IRA for the purpose of paying the future higher education expenses. Distributions from an Education IRA are excluded from income, as long as the distributions are not greater than the qualified expenses.

Effective for tax starting after 2001, the new law:

- Increase the annual limit on contributions to \$2,000 per designated beneficiary.
- Expands the definition of qualified education expenses to include expenses for qualified elementary and secondary school and to include certain room and board expenses, uniforms, computers and extended day program costs.
- Increase the contribution phase-out range for joint filers to twice the range for single filers.
- Eliminates the age 18 restriction on contributions for beneficiaries and the age 30 distribution rule in cases where a beneficiary has "special needs".

Qualified Tuition Programs

Also called college savings plans or Section 529 plans, these state-sponsored tuition programs offer parents and other taxpayers a tax-favored means of funding a child's future qualified higher education. Under current law, earnings accumulate tax deferred and generally are taxable to the beneficiary when funds are distributed to pay expenses or education benefits are received. The beneficiary (or person allowed to claim the beneficiary) may claim a HOPE or Lifetime Learning Credit for the tuition and related expenses paid with the distribution

For tax years starting after 2001, the new tax law:

- Allows education institutions (public or private) to sponsor prepaid tuition programs that satisfy the Section 529 requirements.

- Makes distributions or education benefits received from qualified tuition programs excludable from income, starting in 2002 for state programs and in 2004 for qualified tuition programs maintained by an entity other than a state.
- Sets limits on the room and board allowance that may be paid with tax-free distributions.
- Imposes after 2003, a 10% additional tax penalty on Section 529 program distributions included in income.

Qualified Tuition and Expenses Deductions

In general, education expenses are not tax deductible. And, while the HOPE and Lifetime Learning Credits are available for qualifying expenses, in some cases a deduction for the expenses would provide a greater tax benefit. Recognizing this, Congress included in the new law a new deduction for qualified higher education expenses. The deduction may be claimed whether or not the taxpayer itemizes deductions. However, no education expense deduction may be claimed in a year in which a HOPE or Lifetime Learning Credit has been claimed for the same student. The maximum amount of the deduction and the maximum income a taxpayer may have and still claim the deduction is as follows:

Year	Maximum Deduction	Income Limit (AGI)
2002-2003	\$3,000	Not exceeding \$65,000 \$130,000 for joint filers

We would be happy to give you more information on the Education Incentives and help you to understand the financial issues that affect you at our site www.taxlogic.com.