

## EDUCATION PLANNING UPDATE

Recent turmoil in the financial sector of our economy has forced many parents to reexamine and prioritize their childrens' education plans. Section 529 plans, Coverdell IRAs and other cash reserves have taken major losses due to market volatility and have thus left college bound students with uncertainty relative to education funding.

Some good news began with the College Cost Reduction and Access Act of 2007. The Pell grant program was reauthorized through 2017, with grant awards increasing as high as \$11,600 (2012-2013). Another provision included in the act was the reduction of student loan interest rate from 6.8% (2008) to 3.4% for disbursements made after 7/1/10.

Previous phase-outs of Hope Scholarship and Lifetime Learning Credits have been indexed, so parents with adjusted incomes of less than \$116,000 can still qualify for credits of up to \$1,800 per student (HSC) and \$2,000 per taxpayer (LLC). Taxpayers otherwise phased out of claiming credits, because of income in excess, can still claim tuition deductions on page one of the form 1040, as long as income is less than \$130,000. This alternative deduction may offer greater tax benefit if there is more than one child/parent claiming education costs, plus the deduction reduces state income tax liability and increases homestead property tax credit, if applicable.

The American Recovery and Reinvestment Act of 2009 contains provisions that give parents some additional tax relief. The Hope Credit is replaced by the American Opportunity Credit and is expanded to cover the first four years of college (was two years). The new credit can be as high as \$2,500 (over \$4,000 in tuition) with income phase-outs being increased to \$160,000 for married and \$96,000 for single or head of household taxpayers. The definition of qualified expenses has been increased to allow tuition, fees, books and other required course materials, and even mandatory computer purchases.

The intent of the new law is to give incentive to parents of college eligible students to stay in school and help offset tuition with tax credits. As education costs continue to increase and the time to satisfy minimum requirements for advanced degrees expand, parents hopefully will continue to fund Section 529 plans (effectively work as Roth type education accounts) and encourage their children to stay in school and achieve the greatest return on investment possible.