

# FRANZEN & FRANZEN, LLP

## CERTIFIED PUBLIC ACCOUNTANTS

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### November 21, 2014 – Tax Benefits for Education

Tax credits, deductions and savings plans can help taxpayers with their expenses for higher education. A tax credit reduces the amount of income tax you may have to pay. A deduction reduces the amount of your income that is subject to tax, thus generally reducing the amount of tax you may have to pay. And certain education savings plans allow the accumulated earnings to grow tax-free until money is taken out (known as a distribution), or allow the distribution to be tax-free, or both.

#### **Education Credits**

An education credit helps with the cost of higher education by reducing the amount of tax owed on your tax return. If the credit reduces your tax to less than zero, you may get a refund. There are two education credits available: the American Opportunity Tax Credit and the Lifetime Learning Credit.

There are additional rules for each credit, but you must meet all three of the following for either credit:

1. You, your dependent or a third party pays qualified education expenses for higher education;
2. An eligible student must be enrolled at an eligible educational institution; and
3. The eligible student is yourself, your spouse or a dependent you list on your tax return.

If you qualify for both credits, you may choose to claim either credit (but not both).

#### **Education Deductions**

*Note: The Tuition and Fees Deduction expired Dec. 31, 2013. Depending on tax legislation pending before Congress, the deduction may or may not be available for 2014.*

The Tuition and Fees Deduction can reduce the amount of your income subject to tax by up to \$4,000. Generally, you can claim the deduction if all three of the following requirements are met:

1. You pay qualified education expenses for higher education;
2. You pay the education expenses for an eligible student; and
3. The eligible student is yourself, your spouse or your dependent.

You cannot take the deduction if you claim an education credit for the same expenses.

Student-activity fees and expenses for course-related books, supplies and equipment paid to a qualified institution will qualify for the deduction if the expenses are a condition of enrollment.

The Student Loan Interest Deduction can also be taken as an adjustment to income. To qualify, the loan must have been acquired to pay for qualified education expenses for yourself, your spouse or your dependent. Qualified expenses include tuition and fees, room and board, books, supplies and equipment, and other necessary expenses (such as transportation).

There are also deductions for work-related education expenses and for education costs to maintain or improve your work skills.

### **Education Savings Plans**

Two education-based savings plans are available for taxpayers. Section 529 Savings Plans are used to pay for higher education costs and Coverdell Education Savings Accounts can be used for all levels from K-12 through higher education years. Although contributions to the plan are not deductible, the accounts grow tax free and distributions/withdrawals are not taxable if used to pay qualified education expenses.

In January 2014, we published a more detailed article about Section 529 Savings Plans. Please refer to that article for additional information.

### **Contact Us**

As with all tax laws, there are certain income limitations, expense guidelines, and savings plan requirements for taxpayers to adhere to. If you would like more information on how education credits, deductions and savings plans might benefit your particular tax situation, please feel free to contact our office.