

Family/Education

College Savings Can Begin Before Potty Training

You can contribute up to \$500 per year for your child's education through an education IRA. Contributions must be made on or before the date the future student turns 18 and must be distributed, along with the IRA's earnings, before age 30. Any unused balance may be rolled into another child's education IRA. Money from the education IRA cannot be used at the same time you claim a Hope scholarship credit or lifetime learning credit.

Get Smart About Using Roth IRAs for Education

When tuition payment time rolls around, don't be tempted to use your Roth IRA to cover the bills. Withdrawals for nonqualified distributions during the first five years are penalized. In subsequent years, when you can take out money from a Roth IRA, the IRS will consider your contributions withdrawn first. If you take out more than you originally contributed, you will pay tax and penalty.

Tax Breaks for Higher Education? Do Your Homework

You could be eligible for tax breaks if you return to school. You may qualify for the Hope credit, the lifetime learning credit, a deduction on your tax return if you itemize, or an exclusion for Series EE or I bond interest. The maximum Hope credit tax break is \$1,500 per student. The maximum lifetime learning credit is \$1,000 per taxpayer (up to 20 percent of the first \$5,000 of expenses). You may also contribute \$500 per year to an education IRA for your children, but that is a savings plan, not a tax credit or deduction. Tax breaks can make going back to school more affordable, so check with your tax professional and choose the option that is best for you.

Making a Claim on Dependents with Income

You can still claim your children if they are under age 24 and you have provided them with more than half of their support, even if they have income exceeding one exemption amount. To claim such children ages 19 through 23 as dependents, they must be full-time students for some part of five separate months during the year.

A Matter of Trust

Using a trust for the benefit of your children or grandchildren for educational purposes can involve somewhat complex planning. You should consult a financial planner for the best avenues because there are a variety of trusts. A trust can be a useful planning tool, but it really depends on your circumstances.

Tax Breaks for Single People and Non-Homeowners

If you are single and a non-homeowner, you can still benefit from tax deductions. You could contribute to an IRA, depending on your adjusted gross income (AGI). If you are eligible for an IRA deduction, it would be part of your AGI, so you don't need to itemize deductions. You may also deduct the interest you pay on most student loans, unless you are a dependent of another taxpayer or you use the married, filing separately status. However, you may only deduct interest for the first 60 months that interest payments are required. The deduction - which is limited to \$2,000 for 2000 - is an adjustment to

income, so you don't need to itemize to claim it. Other than that, you can make and claim charitable contributions! If you don't own a home, the deductions available to you are rather limited because some of the biggest deductions are the result of tax payments and mortgage interest, and most people don't have the level of charitable contributions that would enable them to itemize their deductions. You may have some employee business expenses, but you have to have a sizable amount of deductions to itemize. In order to itemize, the itemized deductions must exceed the standard deduction. Otherwise itemizing is counterproductive because it is senseless to do so unless you exceed the standard deduction. In order to take advantage of the value of itemizing deductions, your itemized deductions should be more than your standard deduction. If your standard deduction is higher, it usually makes sense to forgo itemizing and take advantage of the lower tax which that higher standard deduction will bring you.

Lifetime Learning Credit + Hope Credit = Tax Advantage

If you have a student in your household attending his first or second year of college and another entering her third year or later, you may be able to claim both the lifetime learning credit and the Hope credit. Although you can't claim both credits for the same expenses, you can claim a Hope credit for each qualifying student and a lifetime learning credit for a different student's qualifying expenses. The Hope and lifetime learning credits are nonrefundable. Any credit remaining after your tax liability has been reduced to zero is lost--it will not be refunded to you.

Uncle Sam Wants You -- to Go Back to School

If you continue your education beyond your first two years of higher learning, the lifetime learning picks up where the Hope credit leaves off. You can receive a credit for 20 percent of the first \$5,000 you pay for any eligible student in your family. The credit can be claimed every year and also can be applied to prepaid expenses for the next school year. As with some other tax credits, your modified adjusted gross income (AGI) affects your benefits. If you're single, the credit is phased out as your modified adjusted gross income reaches \$40,000 and completely disappears at \$50,000. If you're married and file jointly, the modified AGI phase-out range is between \$80,000 and \$100,000. Taxpayers who choose the married filing separately status cannot claim this credit.

Cash in on Your Kids' Education

Uncle Sam believes in education, so he's created the Hope credit, which allows you a tax credit of up to \$1,500 for each qualifying full-time student who is in his or her first two years of post-secondary education and attends school at least half time. You can claim the Hope credit for 100 percent of the first \$1,000 and 50 percent of the next \$1,000 of qualified expenses, which include tuition, fees and books that must be purchased from the educational institution. Because this is a per-child credit, you'll receive a tax credit of up to \$1,500 for every qualifying student dependent you claim. Income is also a factor in Hope credit eligibility. If you're single, the Hope credit is phased out as your modified adjusted gross income (AGI) reaches \$40,000 and completely disappears at \$50,000. If you're married and file jointly, the AGI phase-out range is between \$80,000 and \$100,000. If you are married and file separately, you cannot claim the credit. To learn more about eligibility requirements for the Hope credit, [click here](#).

Make Your Education Less Taxing

Headed back to the classroom to upgrade your job skills? Your education expenses will probably provide you a tax break. If you're taking classes to improve your skills in your present occupation, your expenses are deductible as an itemized deduction. This deduction, however, is limited to the amount of your qualified education expenses that - when grouped with certain other expenses - exceeds two percent of your adjusted gross income. Keep in mind that the same expenses are probably eligible for the lifetime learning credit. You can only use one tax break for each set of education expenses, so you'll want to determine which will save you more money.

Student Loan Interest

This tax-saver allows you to deduct up to \$2,000 of student loan interest, even if you don't itemize deductions. The right to this write-off disappears as income rises, though. The maximum deduction diminishes gradually as adjusted gross income moves from \$40,000 to \$55,000 on an individual return and from \$60,000 to \$75,000 on a joint return. The deduction is for interest on any loans (not just federal student loans) taken to pay qualified higher education expenses (including room and board) for yourself, your spouse or your dependent who is at least a half-time student.

Options for College Savings

Kids too young for college? Now is a good time to start a college savings program. Look into the following investments, all three of which carry significant tax advantages.

- Series EE U.S. Government savings bonds
- State tuition programs (if your state has one)
- Education IRAs

Credit Opportunities for College Expenses

College kids heading back to campus soon? Remember that you may qualify for the Hope scholarship credit of up to \$1,500 if your student is in his or her freshman or sophomore years of undergraduate school. Also check out the lifetime learning credit of 20 percent of qualified educational expenses up to \$5,000, which may be used by anyone who qualifies, not just college freshmen or sophomores. Both credits are subject to income phase-out limits.