



The College Funding Strategies Newsletter

Summer 2001

Dear Valued Client:

This issue is chock full of great information - so let's get right to it!

Take Advantage of the Summer!

The summer is an excellent time to make some initial college visits - sizing up the setting and the size of the school, nearby activities, dorm and living environment, lab facilities as well as a time to talk to Admissions and Financial Aid offices. Of course, if your son or daughter is serious about a particular school, they should plan on visiting again when the school is in session in the fall. For students who are not going to be seniors this upcoming year, college visits are still important as a way to make general selection criteria (i.e. big or small, rural or city, etc.). Most colleges will be happy to set up a tour of the campus if you call ahead of time to let them know you are coming.

Use the summer to your advantage. When the fall comes, there's no need to remind you, students are back in school as well as the plethora of other activities and homework begin once again. It may be difficult to schedule visits with all the other things going on. Block some time on your calendar **NOW** for the College Road Trip.

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Educational Highlights of the New Tax Act

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This new law has many new provisions to help parents save for and pay for their children's education. Please read below in detail and discover which opportunities are for you. As always, we are available for questions. The following is excerpted from material obtained from CCH Incorporated.

College Tuition Deduction

Under the new law, parents get a long-awaited above-the-line deduction for qualified higher education expenses. Even though the provision is temporary - it ends after 2005 - it should provide much needed relief if you are a parent paying for your child's college education.

For the years 2001-2003, if you are a single taxpayer with adjusted gross income below \$65,000 (\$130,000 if you are married filing jointly), you can take an above-the-line deduction for college tuition of \$3,000 for each year. For 2004 and 2005, the deduction you can take increases to \$4,000 for singles with incomes under \$65,000 and for married taxpayers filing joint returns with incomes under \$130,000.

The new law also permits single taxpayers with incomes up to \$80,000, and joint filers with incomes up to \$160,000, to take a maximum tuition deduction of \$2,000 for 2004 and 2005.

Caution! The tuition deduction cannot be taken in the same year as a Hope or lifetime learning credit for the same student.

Education IRAs

Before the enactment of the new law, savings vehicles called Education IRAs permitted you to make limited contributions and eventually take distributions to pay for qualified education expenses on a tax-free basis. The new law greatly expands the usefulness of these accounts in planning to accumulate funds to pay for a child's education.

Education IRAs had an annual contribution limit of \$500 per child. Under the new law, you can now contribute \$2,000 to an account annually for each child from birth through age 17.

NOTE - The new law removes the prohibition against contributions being made to an Education IRA for a beneficiary that is 18 or older in the case of special needs beneficiaries.

Beginning in 2002, Education IRAs established for your child or children can also accept contributions from corporations, tax-exempt organizations, and other entities. The total amount contributed for any one child cannot exceed \$2,000 per year.

The new law also gives you until April 15 after the close of the applicable tax year to make contributions to the Education IRAs - they no longer have to be made by December 31 of the tax year.

The new law has expanded the number of taxpayers who can establish an Education IRA by increasing the adjusted gross income (AGI) phase-out range for joint filers to double that of single filers (\$190,000 - \$220,000).

The new law does not restrict the use of distributions from Education IRAs to pay only for higher education expenses. You can now use these distributions to pay for elementary and secondary school tuition or expenses (grades K-12), regardless of whether the school is public or private. Expenses that are covered include tutoring, acquisition of computer equipment, room and board, uniforms and extended day programs.

The new law lifts two other restrictions that had affected Education IRAs. First, the Hope and lifetime learning credit can be claimed in the same year that a distribution from an Education IRA is made, provided that the distribution is not used to cover the same expenses for which the education credits are claimed.

Second, you can now make contributions to both an Education IRA and a qualified state tuition program in the same year for the same child without incurring a penalty.

New Rules for Deducting Student Loan Interest

The new law significantly increases the availability of the deduction for student loan interest. For starters, the new law repeals the restriction that the deduction could only be taken with respect to the first 60 months during which student loan interest payments are required.

Under existing law, the deduction for student loan interest had also been significantly restricted by a rule that permitted a taxpayer to take the deduction only if his or her adjusted gross income fell below a certain threshold amount. The new law raises the income phase-out range from \$40,000 - \$50,000 to \$50,000 - \$65,000 for single taxpayers and from \$60,000 - \$75,000 to \$100,000 - \$130,000 for joint filers.

Qualified Tuition Plans - Section 529

The new law expands the scope of qualified tuition plans. You will no longer be restricted to making pre-payments of tuition and other higher education expenses to state-sponsored qualified tuition programs. Under the new law, private institutions of post-secondary learning will also be able to sponsor qualified tuition programs.

The new law also alters the tax treatment of distributions from qualified tuition plans. Distributions from state-sponsored qualified tuition programs will be **excludable** from income after December 31, 2001. Likewise, distributions from non-state programs will be excludable from income if made after December 31, 2003.

This new tax change is a powerful incentive to use these programs to put away as much as possible for our children's future college costs. However, the impact of financial aid eligibility needs to be considered.

Employer-Provided Educational Assistance

The new law extends the income-tax exclusion for employer-provided educational assistance to pay for graduate courses, as well as undergraduate courses. It also makes the income exclusion (up to \$5,250) permanent for both graduate and non-graduate courses.

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Next Month- a review of the different admission plans available. Enjoy the Summer,