

August 6, 2001

## **EDUCATION INCENTIVES IN THE ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001**

The newly enacted Economic Growth and Tax Relief Reconciliation Act of 2001 contains a wide array of tax law changes designed to increase incentives for education savings and to assist taxpayers in paying the costs of education. Here's a summary of the major changes.

### **# EDUCATION SAVINGS ACCOUNTS**

Beginning in 2002, the annual per-child contribution limit for education IRAs increases from the current \$500 to \$2,000 per year. Expenses which can be paid from these accounts will be expanded to include elementary (including kindergarten) and secondary school tuition and expenses, including tutoring, computer equipment, software and services, room and board, uniforms and extended-day program costs.

The current contribution phaseout range for joint filers (currently \$150,000-\$160,000 of modified AGI) increases in 2002 to \$190,000-\$220,000, which is double the amounts for single taxpayers. Corporations and other entities, including tax-exempts, will be able to contribute to education IRAs, regardless of their income. Contributions for a year will no longer have to be made by year-end, but can be made by the following April 15th.

Also starting in 2002, HOPE and lifetime learning credits can be claimed in a year when excluded distributions are made from an education IRA for the same student, as long as credits aren't claimed for amounts paid with tax-free distributions.

### **# QUALIFIED TUITION PROGRAMS**

Qualified tuition programs will be expanded to include certain prepaid tuition programs established by educational institutions, including private institutions. Under the private plans, a person will be able to purchase tuition credits or certificates on behalf of a designated beneficiary, but, unlike state programs, won't be able to make contributions to a savings account plan.

Also starting in 2002, distributions from qualified State tuition programs to pay higher education expenses will be tax-free. This exclusion also will apply to distributions from qualified private tuition plans starting in 2004. Qualified higher education expenses will include actual amounts charged for room and board for school-owned or -operated housing.

HOPE or lifetime learning credits will be able to be claimed for a student in the same year as a tax-free distribution is received from a qualified tuition plan as long as the tax-free distribution doesn't pay expenses for which a credit is claimed.

Up to three transfers of credits or other amounts from one qualified tuition program to

another for the benefit of the same beneficiary will be permitted.

# **EMPLOYER EDUCATIONAL ASSISTANCE PLANS**

The exclusion for up to \$5,250 of employer-provided educational assistance has been made permanent and extended to graduate education, effective for courses beginning after 2001.

# **STUDENT LOAN INTEREST DEDUCTION**

For interest paid on qualified education loans after 2001, income phaseout ranges for eligibility for the student loan interest deduction will increase to \$50,000-\$65,000 (from \$40,000-\$55,000) for singles and to \$100,000-\$130,000 (from \$60,000-\$75,000) for joint filers. Also, the 60-month limit on interest deductibility will no longer apply.

# **DEDUCTION FOR HIGHER EDUCATION EXPENSES**

For 2002 to 2005 only, certain taxpayers will be able to take an above-the-line deduction for qualified higher education expenses. In 2002 and 2003, the maximum deduction will be \$3,000, available to taxpayers with AGI of up to \$65,000 for singles and \$130,000 for joint return filers. In 2004 and 2005, the maximum deduction will be \$4,000 for taxpayers with incomes up to those levels or \$2,000 for singles with higher AGIs up to \$80,000, or joint filers with AGIs up to \$160,000. The deduction can't be taken in the same year a HOPE or lifetime learning credit is claimed for the same student. However, it can be claimed in the same year as an exclusion is available for distributions from an education savings account or a qualified tuition plan or for interest on a redeemed education savings bond, as long as the deduction and exclusion aren't claimed for the same expenses.

# **NATIONAL HEALTH AND ARMED FORCES SCHOLARSHIPS**

Amounts awarded after 2001 under the National Health Service Corps or the Armed Services Scholarship Programs will be tax-free, without regard to any service obligation by the recipient, but not for amounts received by students for regular living expenses, including room and board.

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