https://www.unionleader.com/news/business/money_sense/marc-a-heberts-money-ense-college-education-tax-benefits/article_645461ab-5467-5795-b54b-da3c8959c73f.html

Marc A. Hebert's 'Money $ense': College education tax benefits

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AS WE ALL KNOW, a college degree is expensive. The average cost of an in-state public school degree is $88,000 total. A degree from a private university costs more in the range of $200,000 total.

Obtaining a college education can be important to some individuals. Having a degree may offer a more financially secure future and the ability to follow one's dreams. The cost could be worth it.

The federal government recognizes that students attaining a college education not only means greater earnings potential but also higher income taxes. As such, the government uses tax law to encourage college attendance. This article will look at a few ways education is incentivized by our government.

The first area college is encouraged is through savings vehicles. Saving money is the first step toward making college attainable. The earlier a family starts saving, the better.

One vehicle to consider is a Coverdell IRA. These are also called Education IRAs. The maximum contribution is $2,000 per year for beneficiaries under age 18 or with special needs. The contributions aren't deductible federally, but states may allow a deduction. Balances grow tax free, and distributions are nontaxable if used for qualified education expenses. Eligibility to contribute to these accounts phases out between $95,000 and $110,000 of income for single filers and $190,000 to $220,000 for married couples.

The next savings vehicle is a 529 College Savings Plan. Contrary to the Coverdell IRA, these have no income phase outs. The contribution limits are also higher. Just like the Coverdell IRA, contributions aren't deductible and, if used for qualifying expenses, nontaxable when withdrawn.

Balances grow tax free while invested in the plan. Even though there are no contribution limits, contributions to Section 529 plans can have gift tax consequences. Consult your tax preparer or a certified financial planner to properly plan for these.

We have discussed saving for college, but what happens when the next phase arrives? There is now a college student in the family. The government has provided some tax benefits to those at this stage as well.

The first is the American Opportunity Credit (AOC). The AOC is a tax credit that is available during the student's first four years of college. The credit is equal to 100% of the first $2,000 of college expenses and 25% of the next $2,000 of expenses. Thus, the value of the credit can be up to $2,500. It is available on a per-student basis. Credits usually offset tax liabilities dollar-for-dollar, but the AOC is up to 40% refundable. This means that even if there are no offsetting tax dollars, the taxpayer may receive some of the credit back. If there are excess credits above a 40% refund, the benefit is lost. This credit is phased out for single taxpayers with incomes between $80,000 and $90,000 and married taxpayers between $160,000 and $180,000.

The second credit is the Lifetime Learning Credit. This credit can be used in situations in which the student is beyond the first four college years. It can also be taken for expenses incurred to acquire or improve job skills as long as the expenses are considered qualified. The credit is equal to 20% of up to $10,000 of expenses. Thus, the maximum credit is $2,000. Unlike the AOC, the Lifetime Learning Credit is a per-tax return credit. This means you can take a credit of only $2,000 on a tax return regardless of how many college students you have. This credit also has a phase out for single filers with income from $59,000 to $69,000 and married filers from $118,000 to $138,000.

To learn more about these tax benefits for education, the IRS has Publication 970, Tax Benefits for Education available on the IRS website. If you are considering any of these, it may be a good idea to consult a professional for specifics relating to your situation.

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