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NEW TAX LAW CHANGES FOR FAMILIES WITH KIDS IN COLLEGE

By Curtis A. Feldman, CPA

President Obama promised during his 2008 Presidential campaign that he would make college "more affordable" during this economic downturn. With the February 17, 2009 signing of the American Recovery and Reinvestment Act of 2009, paying for college just got a little easier for you. The White House estimated that nearly 20% of high school seniors who would have received no tax credit under the old system will now receive a tax break to make college "affordable for the first time".

Here's how the new tax law can help

1) Hope Credit

The new law has modified the Hope credit for tax years beginning in 2009 or 2010. The new credit is up to $2,500 per eligible student per year for qualified tuition and related expenses paid for each of the first four years of your student's college education. The old law was just for the first two years of college and was capped at $1,800.

The new credit is calculated on 100% of the first $2,000 paid and 25% of the next $2,000 paid, totaling a maximum credit of $2,500. It is important to note that a tax credit is much more valuable than a tax deduction because a tax credit reduces your tax liability directly while a tax deduction only reduces your taxable income and the tax savings is only a fraction of the tax deduction (based on your marginal tax rate).

The definition of qualified tuition and related expenses included tuition and fees. Meals, lodging, insurance, transportation and similar living expenses are not eligible for the credit. The new tax act has however expanded the expenses eligible for the credit to now include course materials.

There is a catch, as with many tax benefits. The credit is "phased out" for taxpayers with modified adjusted gross income (AGI) between $80,000-$90,000 for single filers and $160,000-$180,000 for joint filers.

2) Computers as education expenses under 529 Plans

529 Plans are designed to hold and invest nondeductible cash contributions on behalf of a designated beneficiary. The earnings build up tax free and distributions are not taxed if they are used to pay for eligible higher education expenses which include tuition, fees, books, supplies, room and board costs.

Under the new tax act, expenses paid or incurred in 2009 or 2010 for the purchase of any computer technology or equipment or internet access or related services will now also qualify as qualified educational expenses if it will be used by the beneficiary of the 529 plan or their family during any of the years the beneficiary is enrolled in college.

The new tax benefits fall short of President Obama's original campaign promises and may seem small in comparison to the soaring cost of higher education, but families today will take every bit of help that is available.

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