



# Education

## Tax and Business Update

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| Average Undergraduate College Costs                         |           |           |          |          |
|---|-----------|-----------|----------|----------|
| Type of College   | 2015–2016 | 2014–2015 | Increase | % Change |
| <b>Tuition and Fees</b>                                     |           |           |          |          |
| Public 2-Year In-State                                      | \$ 3,435  | \$ 3,336  | \$ 99    | 3.0%     |
| Public 4-Year In-State                                      | 9,410     | 9,145     | 265      | 2.9      |
| Public 4-Year Out-of-State                                  | 23,893    | 23,107    | 786      | 3.4      |
| Private Nonprofit 4-Year                                    | 32,405    | 31,283    | 1,122    | 3.6      |
| For-Profit  | 15,610    | 15,160    | 450      | 3.0      |
| <b>Room and Board</b>                                       |           |           |          |          |
| Public 2-Year In-State                                      | \$ 8,003  | \$ 7,856  | \$ 147   | 1.9%     |
| Public 4-Year In-State                                      | 10,138    | 9,786     | 352      | 3.6      |
| Public 4-Year Out-of-State                                  | 10,138    | 9,786     | 352      | 3.6      |
| Private Nonprofit 4-Year                                    | 11,516    | 11,162    | 354      | 3.2      |
| For-Profit  | —         | —         | —        | —        |
| <b>Total Charges</b>  |           |           |          |          |
| Public 2-Year In-State                                      | \$ 11,438 | \$ 11,192 | \$ 246   | 2.2%     |
| Public 4-Year In-State                                      | 19,548    | 18,931    | 617      | 3.3      |
| Public 4-Year Out-of-State                                  | 34,031    | 32,893    | 1,138    | 3.5      |
| Private Nonprofit 4-Year                                    | 43,921    | 42,445    | 1,476    | 3.5      |
| For-Profit  | —         | —         | —        | —        |
| <b>Source:</b> The College Board, Annual Survey of Colleges |           |           |          |          |

## Education Tax Credits

Two education tax credits are available: (1) American opportunity credit and (2) lifetime learning credit. Each year, a taxpayer can claim either, but not both, for a particular student. A taxpayer may claim one type of credit for one student and the other credit for a different student. If available, the American opportunity credit generally is the more generous of the two credits.

|   | American Opportunity Credit   | Lifetime Learning Credit   |
|---|---|--|
| <b>Who is eligible?</b>   | Student may be taxpayer, spouse or dependent  |  |
| <b>Eligible expenses</b>  | Qualified tuition and related expenses <sup>1</sup> —not room and board                                 |  |
| <b>Phases out between AGI of:</b>   |   |  |
| <b>Joint filers</b>   | \$160,000 – \$180,000 (2016 and 2017)   | \$112,000 – \$132,000 (2017)<br>111,000 – 131,000 (2016)                                 |
| <b>Other filers</b>   | 80,000 – 90,000 (2016 and 2017)   | 56,000 – 66,000 (2017)<br>55,000 – 65,000 (2016)   |
| <b>Period available</b>   | Can only be used for first four years of undergraduate per student                                      | Can be used indefinitely; undergraduate and graduate; also courses to improve job skills |
| <b>Credit limit</b>   | Up to \$2,500 per year (100% of first \$2,000 and 25% of next \$2,000 of eligible expenses) per student | Up to \$2,000 per year (20% of eligible expenses) per return                             |
| <sup>1</sup> For the American Opportunity credit, expenses for course materials (such as books, supplies and equipment) qualify if required for enrollment or attendance. For the Lifetime Learning credit, these expenses qualify only if paid to the school as a condition of enrollment or attendance. |   |  |

## Comparing College Savings Options

| Option   | Advantages   | Disadvantages   |
|--|--|---|
| <b>Bank Savings Account</b>  | <ul style="list-style-type: none"> <li>• Safety of principal—up to \$250,000 insured by FDIC</li> <li>• Assets remain under the owner's control</li> <li>• Readily accessible</li> </ul>   | <ul style="list-style-type: none"> <li>• Low interest rate</li> <li>• Taxable (at ordinary income rate)</li> <li>• Not dedicated for education expenses</li> </ul>  |
| <b>Investment Account (Mutual Funds)</b>                                       | <ul style="list-style-type: none"> <li>• Opportunity for growth of principal</li> <li>• Many investment alternatives</li> <li>• Assets remain under the owner's control</li> <li>• Readily accessible</li> </ul>   | <ul style="list-style-type: none"> <li>• Risk of low or negative returns</li> <li>• Taxable (but often at capital gains rate)</li> <li>• Not dedicated for education expenses</li> </ul>  |
| <b>U.S. Savings Bonds</b>  | <ul style="list-style-type: none"> <li>• Safety—return guaranteed by U.S. government</li> <li>• Tax-deferred or tax-free</li> <li>• Possible income exclusion if used for education</li> <li>• Assets remain under the owner's control</li> </ul>  | <ul style="list-style-type: none"> <li>• Low interest rate</li> <li>• Not dedicated for education expenses</li> <li>• Not readily accessible (paper work required)</li> </ul>   |
| <b>Custodial Accounts (UGMA/UTMA)</b>  | <ul style="list-style-type: none"> <li>• Taxed at child's rate (subject to kiddie tax)</li> <li>• Many investment alternatives</li> <li>• Shifts taxable income to child</li> <li>• Opportunity for growth of principal</li> </ul>   | <ul style="list-style-type: none"> <li>• Irrevocable gift</li> <li>• Control transfers to child at age of majority</li> <li>• Not dedicated for education expenses</li> <li>• Risk of low or negative returns</li> </ul>  |
| <b>Education Savings Accounts (ESAs)</b>                                       | <ul style="list-style-type: none"> <li>• Opportunity for growth of principal</li> <li>• Earnings tax-free if funds used for education (K-12 plus college expenses)</li> <li>• Rollovers to family member permitted</li> </ul>  | <ul style="list-style-type: none"> <li>• Risk of low or negative returns</li> <li>• Fees may be higher than an investment outside an ESA</li> <li>• Age limits (18-contributions, 30-distributions)</li> <li>• High income taxpayers cannot contribute</li> </ul> |
| <b>Qualified Tuition Programs (QTPs)—Savings Plans (also called 529 Plans)</b> | <ul style="list-style-type: none"> <li>• No income limit on who can contribute</li> <li>• High contribution limits</li> <li>• Many investment alternatives</li> <li>• Opportunity for growth of principal</li> <li>• Estate and gift tax advantages</li> <li>• Earnings tax-free if used for qualified education</li> <li>• Rollovers to family member permitted</li> <li>• Owner can reclaim funds, but subject to tax and penalty on earnings</li> </ul> | <ul style="list-style-type: none"> <li>• Risk of low or negative returns</li> <li>• Investment options can be changed only twice a year</li> <li>• Fees may be higher than those outside a QTP</li> </ul>   |

## Deducting Education Loan Interest

Interest paid on indebtedness incurred by the taxpayer to pay for the qualified higher educational expenses of the taxpayer, spouse or dependent may be deductible above-the-line.

- Cannot be claimed by an individual claimed as a dependent.
- Annual maximum deduction is \$2,500.



| Adjusted Gross Income (AGI)<br>Phase-Out Range |  |
|--|--|
| Filing Status                                  | Phase-Out Range  |
| Married Filing Joint (joint filers)            | \$135,000 - \$165,000 (2017)<br>130,000 - 160,000 (2016) |
| Single, Head of Household                      | 65,000 - 80,000 (2016 and 2017)                          |

The handout is designed to provide accurate information regarding the subject matter covered. However, before completing any significant transactions based on the information contained herein, please contact us for advice on how the information applies in your specific situation.  
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