



## Tuition Tips: **Spotlight on College Costs**

Are you or someone in your family considering attending college? Or perhaps someone already is there and you'd like to find ways to make it more affordable. College education is expensive, and the financial implication of college education is a critical piece of the decision-making process.

### **AVERAGE COST TO ATTEND COLLEGE**

Estimated cost for one year of undergraduate tuition, fees, room and board:

- ▶ Public institutions: \$15,640
- ▶ Private not-for-profit institutions: \$40,614
- ▶ Private for-profit institutions: \$23,135

*Source: National Center for Education Statistics, [Digest of Education Statistics](#) (2014)*

The good news is that you have numerous options available to offset some of the costs of higher education. The first step in taking advantage of these opportunities is to know what options exist, and what works best for you.

Every college is different and will offer different incentives to prospective students, but in addition to those tools, there are plans and techniques that students can use to help defray college expenses. Some of these tools are federal tax-advantaged savings accounts, whereas others might exist on a state-by-state basis. When formulating a plan to save and pay for college, your CPA, who knows you and is familiar with your financial goals, can help you make that diploma a reality.

# College Savings Tools

## The 529 Savings Plan

Probably the most well-known and cited college savings vehicle, the 529 plan (also called a qualified tuition plan) is a tool that everyone can use. A key benefit of using this savings tool is that the earnings generated within the plan are not subject to federal tax or, in most instances, state tax when used for qualified education expenses. Qualified education expenses include tuition, fees, books, room and board, and computer technology for educational purposes.

Additionally, there are no limits on how many 529 plans an individual can set up, nor is there a specific window to which these plans must adhere — individuals can set them up at any time.

## Coverdell Education Savings Accounts (ESAs)

Another tax-advantaged strategy to help prospective college students set aside funds for college education, the [education savings account](#), is available to taxpayers who have a modified adjusted gross income (MAGI) of less than \$110,000 (individual), or \$220,000 (joint). The total contributions for any one beneficiary cannot exceed \$2,000 per year.

A distinction between 529 plans and ESA accounts is that while 529 plans are oriented toward college expenses, account holders can apply ESA funds toward primary school expenses. Similar to 529 plans, the contributions made to ESA plans are not deductible, but the earnings generated within the account grow tax free, and distributions are tax free as long as they do not exceed the beneficiary's qualifying education expenses for the year.

## Education Savings Bonds

Savings bonds, or savings accounts, already are a familiar tool to individuals saving money for various purposes, but the education savings bond program is aimed toward setting funds for qualified education expenses. A qualified U.S. savings bond is a series EE bond issued after 1989 or a series I bond.

A key benefit of using Series EE or Series I bonds is that most, if not all, of the interest and earnings accumulated from these investments may be excluded from federal tax. Holders can use funds invested into a Series EE bond to pay for tuition and fees, as well as contributions to a 529 savings plan or an ESA account for the owner, owner's spouse or dependent.



### At a Glance: College Savings Tools





	529 Savings Plans	Coverdell Education Accounts	Education Savings Bonds
Eligibility	Anyone who is designated as the qualified beneficiary	Individual taxpayers with an MAGI of less than \$110,000 or taxpayers filing jointly with a MAGI less than \$220,000	Dependents of bond holders who are 24 or older as of the bond's issuance date
What It Covers	Qualifying education expenses (tuition, fees, books, computer equipment, room and board)	Qualifying education expenses; ESA funds can also be used for elementary and high school expenses	Qualified education expenses, specifically tuition and fees, but not room and board

## At a Glance: College Savings Tools (continued)

	529 Savings Plans	Coverdell Education Accounts	Education Savings Bonds
<b>Pros</b>	<ul style="list-style-type: none"> <li>• Non-taxable distributions</li> <li>• Student does not have to be full time</li> <li>• Funds can be transferred to another beneficiary without penalty</li> <li>• Plan earnings are not federally taxable</li> </ul>	<ul style="list-style-type: none"> <li>• Non-taxable distributions</li> <li>• Distributions tax-free if they do not exceed qualifying expenses</li> <li>• Can open at any U.S. bank or IRS-approved entity and for any beneficiary under 18</li> </ul>	<ul style="list-style-type: none"> <li>• Education expenses include contributions to a 529 plan or an ESA account</li> <li>• Certain educational programs located outside the U.S. may qualify</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>• Contributions may not exceed qualified education expenses and are not tax deductible</li> <li>• If contributions exceed \$14,000, gift taxes may apply</li> </ul>	<ul style="list-style-type: none"> <li>• Contributions cannot exceed \$2,000 annually</li> <li>• Contributions must be in cash and are not tax deductible</li> </ul>	<ul style="list-style-type: none"> <li>• Tax-free status of interest on bonds dependent on MAGI of owners</li> <li>• Tax-free benefit reduced by educational tax credits</li> </ul>

## Education Tax Credits and Deductions

In addition to tax-advantaged savings plans, federal tax incentives are available to some taxpayers to offset the cost of tuition and other expenses. 2016 is the last year that the tuition and fees deduction can be claimed (unless Congress extends it); your CPA can advise you on the best incentive to use.

		Amount	Coverage Notes
	American Opportunity Tax Credit	\$2,500 per student	Covers undergraduate expenses such as tuition and required books and fees (for the first four years of post-secondary education); phased out completely at \$90,000 single/\$180,000 joint
	Lifetime Learning Credit	\$2,000 per student	Covers qualified graduate or undergraduate; phased out completely at \$65,000 single/\$130,000 joint
	Tuition and fees deduction	Up to \$4,000 for taxpayer, spouse or dependent	Applies to higher education tuition and fees; cannot be claimed with other education credits (deduction extended through 2016); phased out completely at \$80,000 single/\$160,000 joint
	Student loan interest	Up to \$2,500 adjustment to income per return	Interest deducted during the remaining period of your student loan; phased out completely at \$80,000 single/\$160,000 joint

## Other Financing Options

### Student Loans

Student loans are another alternative to help pay for tuition, and the unsubsidized loan can be particularly helpful for families whose income exceeds the limits for tax incentives. Taxpayers under certain income limits can deduct up to \$2,500 in loan interest. However, student loan debt can become a significant long-term burden, so consult with your CPA on the best way to approach borrowing.

Some of the most commonly used federal loans include:

- ▶ **Direct Subsidized Loan** — Interest is paid by the government while the borrower is in school. Award based on financial need.
- ▶ **Direct Unsubsidized Loan** — Interest is paid by or accrued to the borrower. Award based on cost of attendance.
- ▶ **Perkins Loan** — Undergraduates can borrow up to \$4,000 a year; \$20,000 total with a 5% fixed interest rate. Award based on financial need and available federal aid.

### Early Withdrawal From Individual Retirement Account

You can take distributions from your IRAs for qualified higher education expenses for you, your spouse or child (and their descendants) without having to pay the 10% additional tax on withdrawals before turning 59½. You may owe income tax on at least part of the amount distributed, but you may not have to pay the 10% additional tax.

### Trusts and Scholarships

Trust funds can help minimize estate taxes and provide professional management but you need a significant lump sum to initiate a trust. Also, trusts often are expensive to maintain. You may want to consult a legal or tax professional familiar with trust laws for the specific state in question in order to effectively plan and structure a trust to both minimize taxability of funds and direct the distributions.

In addition to taking advantage of the resources federal and state governments offer, individuals should take advantage of scholarships and other funding opportunities. The institution you or your child ultimately select may offer still more methods to help defray the cost of college.

One comprehensive resource is Sallie Mae, which lists scholarships available according to different categories, and also offers a free mobile app to help with payment management, as well as a [College Planning Toolbox](#).

### Moving Ahead

College is an exciting step in a person's life — one that can deliver rich rewards. Your CPA, as your year-round trusted adviser, can work with you to determine a plan for paying for college while meeting other life goals as well.

