

PLANNING FOR EDUCATION EXPENDITURES

There have been numerous changes to the deductions and credits that are available to qualifying taxpayers for education expenditures.

First, interest on qualified education loans up to \$2,500 is deductible above the line (no need to itemize). The debt must be incurred by the taxpayer solely to pay qualified education expense. This deduction is subject to a phase out based upon adjusted gross income.

Second, for the tax year 2008 and 2009, if a taxpayer (or dependent of) attends school in a Midwest Disaster Area then the amount of expenditures qualifying for the HOPE credit is doubled. In the case of the Lifetime Learning credit, the amount of credit is doubled. In addition, the definition of qualifying expenses has been expanded to include fees, books, supplies, and equipment required for enrollment. Disaster areas are declared per county, with many in Iowa qualifying. No counties in Minnesota qualify. For 2009 and 2010, the HOPE credit has been replaced by the American Opportunity Credit (AOC). Taxpayers may elect out and claim the HOPE credit in lieu of the new AOC. This provision (to elect out) applies to those eligible for the disaster zone provisions in which case the old credit may be better. The new law modifies the HOPE credit in that a credit of up to \$2,500 is available (up from \$1,800). In addition, this new credit is available for the first four years (up from 2 years) and expenditures include course materials. In addition, up to 40% of the credit may be refundable. Again, a phase out based upon adjusted gross applies.

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