

Unexplained Side of Resources: Prepaid Tuition Plans, Tuition Savings Plans, Scholarships, Fellowships, and Assistantships

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Overview

- Statutory Definitions:
 - Income
 - Adjusted Gross Income
 - Untaxed income and benefits
 - Exclusions
 - Other Financial Assistance
- Earnings from Work
- Internal Revenue Code



Before TRA 1997

- Qualified Scholarships
- Exclusion for Series EE US Savings Bonds
- Deduction for Education Expenses
- Income Exclusion for Employer-provided Assistance
- Student Loan Forgiveness
- Qualified State Tuition Programs

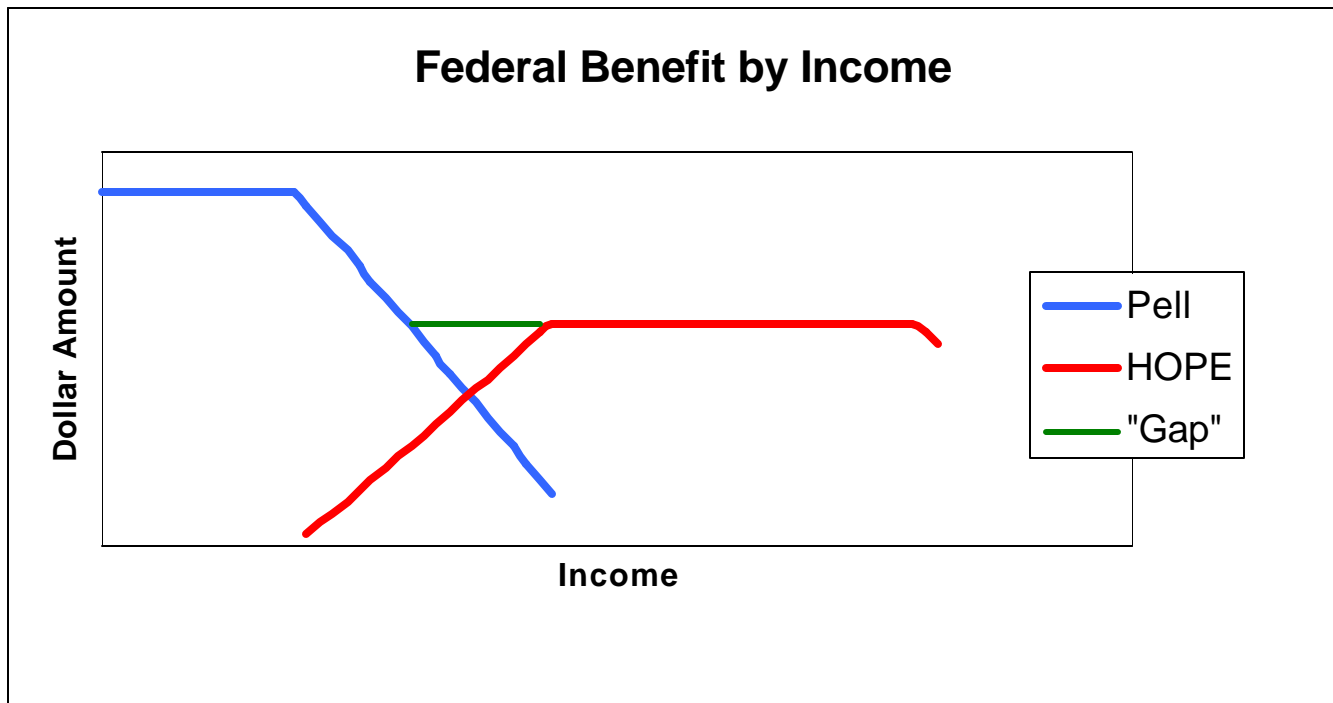


Policy Development

- HOPE Scholarship
 - \$1,500 Refundable Tax Credit
 - Enrolled at Least Half-time
 - First Two Years of College
 - Remain Drug-free
 - Maintain a “B” Average
- Tax Deduction
 - First \$5,000 of Expenses (\$10,000 in 2003)
 - Any Postsecondary Education or Training



Policy Development (cont'd)



Policy Development (cont'd)

- HOPE Tax Credit
 - \$1,500 Tax Credit for Educational Expenses (100% of First \$1,000, 50% of Second \$1,000)
- Lifetime Learning Tax Credit
 - 20% of the First \$5,000 (\$10,000 in 2003)
- Federal Pell Grants
 - Increase Maximum Award by \$300
 - Expand Eligibility for Independent Students
- Part F Need Analysis



Economic Growth and Tax Relief Reconciliation Act of 2001

- **Deduction for Educational Expenses**
 - “Above the line”
 - Income limited
 - Annual maximum -- \$3,000/\$4,000/\$2,000
- **Student Loan Interest Deduction**
 - Eliminates 60-month rule
 - Higher income phase-outs
 - Any interest paid
- **Employer-Provided Educational Assistance**
 - Graduate/professional education
 - Permanent exclusion

Economic Growth and Tax Relief Reconciliation Act of 2001 (cont'd)

- HOPE/Lifetime Learning Tax Credit
 - Coordinate with other tax benefits
- Education IRAs
 - \$2,000 annual contribution limit
 - Contributions from employers/others
 - K-12 educational expenses
 - Higher income phase-outs
 - Coordinate other savings plans benefits

Economic Growth and Tax Relief Reconciliation Act of 2001 (cont'd)

- Qualified Tuition Programs – Section 529
 - Tax-free distributions
 - Pre-paid plans developed by educational institutions
 - Expanded eligible expenses
 - Increased flexibility
 - Compatible with HOPE/Lifetime Learning tax credits

Real Life

Tax Credit Beneficiaries Are “Held Harmless”

- Federal Need Analysis Excludes Amount(s) From the Calculation of “Total Income”
 - Reported on 2001-2002 FAFSA “Worksheet C”
 - Amount(s) Not Included as “Untaxed Income and Benefits”
- Excluded as a Resource/Estimated Financial Assistance

Real Life (cont'd)

Work: Income or Other Financial Assistance?

- Need-based employment
- Non need-based employment
- An educational benefit that is contingent upon enrollment
- Fellowships and assistantships
- Scholarships with work/service component



Other Tax-Related Issues in Need Analysis

- W-2 Reporting
 - Box 13
 - Box 14

- Roth IRA Conversion

Additional Information

Summary of the *Economic Growth and Tax Relief Reconciliation Act of 2001*:

www.house.gov/rules/1836_sum.pdf

Internal Revenue Service, *Instructions for Forms W-2 and W-3*:

www.irs.gov/forms_pubs/forms.html

IRS Publication 590, *Individual Retirement Arrangements (IRAs)*:

www.irs.gov/forms_pubs/pubs.html

