Filing Guide

IRS Publication 970:
Tax Benefits for Higher Education

Tax Savers

You can withdraw funds from your IRA or qualified plan for college costs (tuition, room and board, books, and fees) without the usual 10% penalty for withdrawals before age 59½.

Tax Savers

Tax breaks for parents and students generally phase out as parental AGI rises, and financial aid is based on family income and assets. Emancipating your child severs that financial cord and lets your child qualify for tax breaks and financial aid according to their own income and assets. Your child will have to provide more than half of their own support (from investment and employment income) so that they no longer qualify as your dependent. This, in turn, lets them claim their own personal exemption (which may be phased out on your return anyway).

Tax Savers

If dorm life doesn't suit your scholar, consider buying them off-campus housing. As long as you can trust them not to trash the place, they'll gain some real-world financial education and responsibility along with their Shakespeare and Plato. This offers several tax and financial advantages:

- You can treat it as a second home and deduct mortgage interest and property taxes on Sched. A. Or you can treat it as rental property, charge rent, and report rental income and expenses on Sched. E.
- You can pay your child a management fee and tax-advantaged employee benefits to manage the property.
- You can title the home in your child's name (or jointly with them) and include them as a co-signer on the mortgage to help build their credit.
- A child who owns and occupies the home (meaning their name is on the title) for two years can exclude up to $250,000 of gain from their income when they eventually sell.

Potential Savings

Up to $2,500 in Hope Scholarship and $2,000 in Lifetime Learning credits per student, per year.

American Opportunity/Lifetime Learning Credits

These credits are available for parents (if they claim a student as a dependent) or students (if they can't be claimed as someone else's dependent). Here are the rules:

College Credits

Credit	American Opportunity	Lifetime Learning
Eligible Course	You, your spouse, or your dependent enrolled at least half-time in the first four years of post-secondary education	1) Any year of postsecondary or graduate education 2) Any course of instruction at an eligible institution to acquire or improve job skills
Eligible Expenses	100% of the first $2,000 in expenses plus 25% of the next $2,000 in expenses; $2,500 maximum per student	20% of the first $10,000 in expenses; $2,000 annual maximum per taxpayer

- You can claim the full American Opportunity credit for as many students as qualify; however, the Lifetime Learning Credit is capped at $2,000 per taxpayer per year.
- The American Opportunity credit phases out as your AGI tops $80,000 ($160,000 for joint filers). The Lifetime Learning credit phases out as your AGI tops $59,000 ($119,000 joint) (2024).
- You can't claim credits for expenses you pay out of an Education Savings Account or Section 529 Plan established for that student.
- Married couples filing separately can't claim the credits.

Give Your Child Appreciated Assets to Pay College Costs

Previously it was possible to give appreciaed assets to students age 18 or older *before* you sold them, to pay college costs. Your child's tax on those gains would likely be less than yours. And this move kept down your AGI, which preserved your adjustments to income, deductions, and credits. You can give each child up to $18,000 per year ($36,000 per couple) with no gift tax consequence (2024).

However, since 2008 the "kiddie tax" rules now apply to full-time students under age 24, thus greatly limiting this strategy.