The COLLEGEDUDE

2023-2024

TAX BREAKS FOR COLLEGE BOUND FAMILIES

8 Tax Terms You and Your Student Need to Know

PRESENTED BY:

Daniel Cieniewicz, CFP®, CCFC

DISCLOSURE

THIS WHITEPAPER WAS CREATED BY DANIEL CIENIEWICZ. DAN IS AN INVESTMENT ADVISER REPRESENTATIVE OF HYPERION FINANCIAL, LLC. HOWEVER, PLEASE NOTE THAT THE CONTENT OF THIS WHITEPAPER IS FOR INFORMATIONAL AND EDUCATIONAL PURPOSES ONLY, AND SHOULD NOT BE CONSIDERED INVESTMENT ADVICE. NO INFORMATION PRESENTED HERE SHOULD BE CONSIDERED A RECOMMENDATION THAT ANY PARTICULAR INVESTMENT, STRATEGY, PORTFOLIO, OR TRANSACTION IS SUITABLE FOR ANY SPECIFIC PERSON. YOU ARE ENCOURAGED TO SEEK THE COUNSEL OF PROFESSIONAL FINANCE, LEGAL, AND/OR TAX ADVISORS AS YOU DEEM APPROPRIATE BEFORE MAKING ANY INVESTMENT DECISIONS BASED ON THE CONTENT OF THIS WHITEPAPER.

HYPERION FINANCIAL, LLC ("HYPERION") IS A REGISTERED INVESTMENT ADVISER AUTHORIZED TO DO BUSINESS IN THE STATES OF PENNSYLVANIA AND TEXAS, AND IN OTHER JURISDICTIONS WHERE EXEMPTED. REGISTRATION AS A REGISTERED INVESTMENT ADVISER DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING. HYPERION CAN ONLY PROVIDE INDIVIDUALIZED SERVICES AFTER YOU SIGN AN AGREEMENT AND RECEIVE REQUIRED DISCLOSURES. USERS OF THIS WHITEPAPER MAY, BUT ARE NOT REQUIRED TO, ENGAGE THE SERVICES OF HYPERION FOR ADVISORY SERVICES.

PLEASE REMEMBER THAT ALL INVESTMENTS INVOLVE VARYING DEGREES OF RISK, AND THE FUTURE PERFORMANCE OF ANY SPECIFIC INVESTMENT OR INVESTMENT STRATEGY IS NOT GUARANTEED TO BE PROFITABLE OR EQUAL TO ANY HISTORICAL PERFORMANCE.

THIS WHITEPAPER MAY CONTAIN LINKS TO OTHER WEBSITES, INCLUDING LINKS TO THE WEBSITES OF COMPANIES THAT PROVIDE RELATED INFORMATION, PRODUCTS AND SERVICES. THESE EXTERNAL WEBSITES ARE CREATED, PUBLISHED, AND MAINTAINED BY INSTITUTIONS OR ORGANIZATIONS INDEPENDENT OF DANIEL CIENIEWICZ AND HYPERION. THESE LINKS ARE INCLUDED SOLELY FOR THE CONVENIENCE OF VISITORS TO THIS WEBSITE, AND DOES NOT IMPLY AN AFFILIATION, SPONSORSHIP OR ENDORSEMENT. WE DO NOT CONTROL THESE EXTERNAL WEBSITES AND DO NOT GUARANTEE OR ASSUME RESPONSIBILITY FOR THE ACCURACY, COMPLETENESS, OR TIMELINESS OF INFORMATION LOCATED AT SUCH WEBSITES. YOU SHOULD ONLY RELY ON INFORMATION OBTAINED FROM THESE EXTERNAL WEBSITES AFTER VERIFYING ITS ACCURACY, COMPLETENESS, AND TIMELINESS.

TABLE OF CONTENTS

ABOUT THE COLLEGE DUDE

When it comes to saving and paying for college, I've seen it all. College costs continue to outpace inflation, with no end in sight. Parents should know about the options available to them, and how to best pay for college to ensure they stay on track for retirement - while their children graduate without crippling student loan debt.

My focus is, and always has been, to help parents spend as little as possible when it comes to paying for college. One way to help offset the rising cost of college is to understand the tax benefits available. This guide is to provide you with a background in tax planning for you and your college bound child.

LET'S END STUDENT LOAN DEBT

DANIEL CIENIEWICZ, CFP®, CCFC

SCHOLARSHIPS, GRANTS & GIFTS

You may not have known there are taxable implications for these sources of college funding. But there could be.

Tax-Free Gifts

When paying for a child's education, a parent may pay the full cost of attendance with no taxable implications, But what about a grandparent? Grandparents can make direct payments to the school, but to avoid the annual federal gift tax exclusion, only **tuition** qualifies. If the grandparent wants to pay beyond the cost of tuition (such as room & board or books), the amount is counted toward the annual gift tax exclusion.

Thankfully, in 2023, the gift tax exclusion is $17,000 per donor - per beneficiary. So grandma and grandpa could give their beloved grandchild up to $34,000 per year in excess of paying for tuition directly.

If you go over the annual limit, the donor will have to file the necessary tax forms to disclose the gift to the IRS.

Scholarships & Grants

Scholarships & grants are the best way to pay for schooling. You don't need to pay these back. They typically will come in the form of gift aid offered directly through the school in the financial aid package, or could come from outside sources that you or your child apply to separately.

In the event that a scholarship or grant covers full tuition, you're in great shape. You can also use scholarship proceeds to purchase books & equipment as well. But did you know that if the scholarship is paying for room & board, it's considered taxable?

It's worth noting that while maximizing these sources are the most sure fire way to graduate debt free, they do carry a taxable implication if used for room & board.

EDUCATION TAX CREDITS

It's worth knowing about the two federal education tax credits.

Outside of scholarships & grants, I think tax credits are the best way to help alleviate the cost of college. While most are familiar with deductions, tax credits can be actual dollars back on your tax return. The two most popular credits are the American Opportunity Tax Credit, and the Lifetime Learning Credit

For parents of dependent, undergrad students, the American Opportunity Tax Credit is the superior option of the two. If you can only claim one, that one usually is the better one to claim.

You're eligible to claim if:
-You spent it on a qualifying education expense (tuition, fees, equipment).
-The amount you're claiming didn't come from a tax-favored source, such as 529 plan.
-You've not claimed the AOTC for more than four years.
-You're pursuing a degree and enrolled at least half-time.
-No felony drug conviction the end of tax year.

The amount you're eligible to claim is $2500 per child, per year. It's a full dollar for dollar match on the first $2k, the 25% on the next $2k. So if you spend $4000, $2500 is the maximum credit.

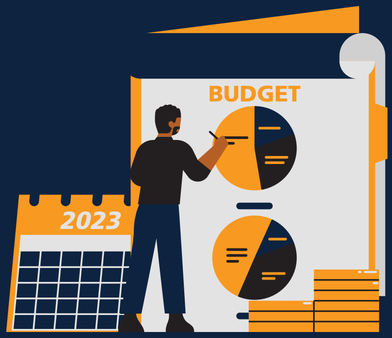
Modified Adjusted Gross Income must be below $160k if married filing jointly, between $160-$180k for a reduced benefit, and eligibility ceases if over $180k. Those numbers are halved for single filers.

EDUCATION TAX CREDITS

There are 2 main federal tax credits when paying for higher education

Goal #1

Decrease Modified Adjusted Gross Income if possible to qualify. This tax credit is on a per child basis, so multiple children = larger credit.



Goal #2

Budget accordingly - Loans do qualify as after-tax funds, but make sure 529 distributions are properly utilized to qualify.

Goal #3

Work with your tax professional to make sure you're properly completing the necessary tax forms to receive the credit.

STUDENT LOAN INTEREST DEDUCTION

The Student Loan interest Deduction allows for student loan interest repayments to be deducted from income. The best part? It's an above the line deduction, which means that even if you utilize the standard deduction, you can still deduct the interest from your taxes.

It's eligible whether you're a Parent PLUS loan borrower, or a recent student graduate. But you must make sure you meet the taxpayer, income, and loan eligibility requirements.

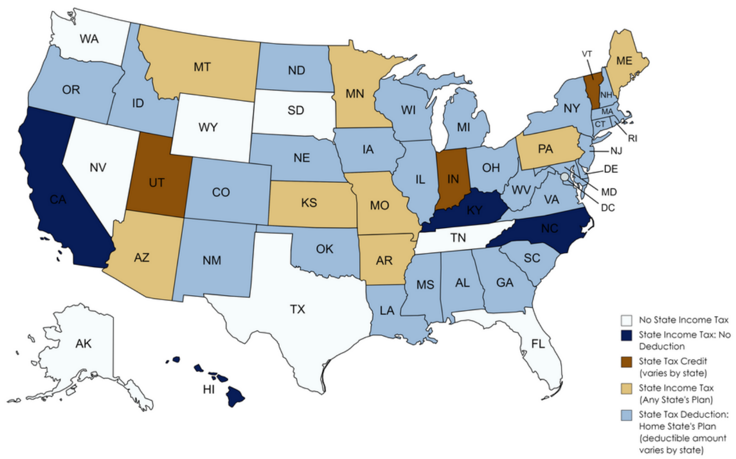
While some student loan providers only send the 1098E form if the interest is over $600 in the year, it's worth checking with your student loan provider to make sure you can deduct this interest.

Income Eligibility - Modified Adjusted Gross Income	MFJ: $145k-$175k Single: $70k-$85k MFS: Not eligible
Taxpayer Eligibility	1. Legally bound to pay 2. Can't be claimed on another return 3. Must have been enrolled at least part time
Eligible Loans	1. Federal Student Loans 2. State Ed. Loans 3. Private Student Loans

SECTION 529 PLANS

The most tax-efficient plans for college savings

529 PLAN ACTION	STATE	FEDERAL
Contributions	Deductible*	Not Deductible
Growth	Tax-deferred	Tax-deferred
Distributions for qualified expenses	Tax-free	Tax-free



Section 529 plans offer great flexibility when it comes to saving for college and saving on taxes. As you see from the graphic above, federal tax treatment allows the accounts to grow tax-deferred and distributions are tax free, if used for qualifying education expenses.

Qualifying education expenses include tuition, room & board, books, and equipment. Refer to IRS Publication 970 for a full breakdown.

If you take a non-qualified distribution from a 529 plan, it results in a 10% penalty, and the interest earned is taxable as income. As a result, it's great to use these accounts for education, but to keep in mind that anything beyond that could result in a penalty and/or adverse consequences.

529 PLANS

Recent legislation changes have made these plans more flexible.

Recent provisions have made 529 plans every more attractive for families paying for college. Including:
-Tax-free beneficiary transfers to family members.
-K-12th grade private tuition expenses ($10k/year)
-Up to $10k student loan payoff (lifetime amount per beneficiary).
-"Rollover" to Roth IRA starting in 2024 (conditions apply).

For grandparents, a 529 plan can provide a great benefit as well. Grandparent-owned 529 plans are not considered an asset of the parents when qualifying for financial aid. If distributions are taken for certain schools in the freshman or sophomore year for the student, they could count as untaxed income, however. But these accounts for grandparents can be very beneficial for grandchildren.

PUBLIC SERVICE LOAN FORGIVENESS (PSLF)

Public Service Loan Forgiveness (PSLF) is a great benefit offered to eligible borrowers. While all federal loans offer some type of forgiveness in the promissory note, PSLF offers 2 major benefits the other plans do not. The first is a 10 year repayment schedule. With the new SAVE repayment plan, repayments are very affordable. As a result, the PSLF plan has never been a better option. The second benefit? The forgiven amount is tax-free. That is not the case for the 20-25 year repayment plans. This benefit can help grad students who have incurred federal debt tremendously.

EXAMPLE (ESTIMATES BASED ON NEW "SAVE" PLAN)			
Family Size	5	**Year started paying back loans**	2023
Annual RoR% on investments	5%	**Tax rate in 20 years**	30%
Federal SL Debt	$150k	**% of loans from grad school**	80%
Adjusted Gross Income	$125,000	**Average Interest Rate of loans**	6%

TOTAL AMOUNT FORGIVEN AFTER 10 YEARS: $157,128
***SAMPLE TAKEN FROM STUDENTLOANPLANNER.COM**

PSLF REQUIREMENTS

Eligible Loans

ELIGIBLE	Direct Subsidized & Unsubsidized; Direct PLUS Loans; Direct Consolidation Loans
NOT ELIGIBLE	Federal Family Education Loan; Perkins Loan; Student Loans from Private Lenders

Eligible Employers

***Must be full-time**

ELIGIBLE	US-based govt employees; not for profit organizations (501c3 of IRC); Other not-for profit devoting time to public services
INELIGIBLE	For profit organizations; Labor Unions; Partisan Political Organizations

Additional Criteria

Loans must be repaid in income-driven repayment plan or 10-year Standard

Make a total of 120 qualifying monthly payments (need not be consecutive)

SECTION 127 PLANS

Did you know that some employers offer to help pay for their employees higher education costs tax-free? It can be a great plan for both the employer & employee when it comes to saving on taxes.

An eligible employee can receive up to $5,250 without any FICA or income tax levied, and the employer can use that as a write off.

Requirements are as follows:

- The employer must have a written educational assistance plan
- The plan must not offer other taxable benefits or remuneration that can be chosen instead of educational assistance (cash or noncash)
- The plan must not discriminate in favor of highly compensated employees
- An employee may not receive more than $5,250 from all employers combined
- Eligible employees must be reasonably notified of the plan

Contact

IF YOU FOUND THIS INFORMATION INSIGHTFUL AND WANT TO LEARN MORE ABOUT HOW YOU CAN POTENTIALLY APPLY THESE TO YOUR PLAN, BE SURE TO GET IN TOUCH WITH ME.

www.thecollegedude.com
dan@hyperionfp.com
610-621-0711