

Congress and the Arizona legislature have made a concerted effort using the tax codes to encourage the pursuit of education and to fund schools. There is something here for everyone — elementary and college students, in public and private schools. Whether funded by yourself, your family or your employer, there is a way to save dollars on education.

Some tax benefits are **credits**, which directly reduce the tax dollars you pay. Others are **deductions**, which reduce the income that is taxed. Other provisions require the assistance of employers. Some of the breaks are federal while others impact Arizona returns only.

For some tax breaks, income limitations apply — as low as \$41,000 for singles.

Special rules apply in the definition of eligible educational institutions. Such schools offer bachelor's degrees, associate degrees or recognized post secondary credentials (from many vocational institutions).

Most expenses for tuition, books, lab fees and other education necessities qualify for the credits or deductions, but room, food and other personal support expenses do not qualify. Specialized expenses for sports or hobbies also do not qualify for these credits.

These provisions are not just for those in college now. Savings plans cannot begin too early. It is estimated that a baby now will need \$125,000 for 4 years of college at a state university ... so now is the time to begin.

## Enrolled Agents

*the taxpayers' tax experts*

**Enrolled Agents are the only tax professionals licensed to represent taxpayers before the Internal Revenue Service in all 50 states.**

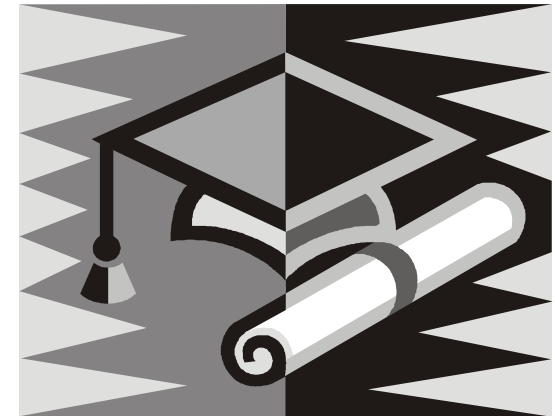
An Enrolled Agent (EA) has demonstrated technical competence in the field of taxation. With the stringent requirements to qualify and the continuing education required, there are fewer than 35,000 active Enrolled Agents in the United States.

All Enrolled Agents specialize in taxation, unlike attorneys and CPA's who may or may not focus on tax issues.

Throughout the year, EAs provide tax planning expertise, represent and prepare tax returns for individuals, partnerships, corporations, estates, trusts and other entities with tax-reporting requirements. Enrolled Agents' expertise in the continually changing field of tax law enables them to effectively represent taxpayers as **taxpayer advocates with solutions**.



## HOW TO **SAVE** ON EDUCATION COSTS through tax breaks



Taking advantage of tax credits, deductions and savings for education is complicated, but may be worth the time and effort for lower taxes if you qualify.

The chart inside gives an overview of education tax benefits. This information is meant to provide a general awareness of the provisions. To understand how these tax breaks apply specifically to your individual tax situation, please ask your Enrolled Agent.



Arizona Society of  
Enrolled Agents

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## FEDERAL AND ARIZONA TAX PROVISIONS FOR EDUCATION SAVINGS

PROVISION NAME	EFFECTIVE DATE	CREDIT OR DEDUCTION	FEDERAL OR AZ	MAXIMUM AMOUNT	YEARS OF EDUCATION	DEDUCT?	PENALTY?	WHO PAYS?	WHO IS STUDENT?
<b>HOPE Scholarship Credit</b>	1/1/1998	Credit	US	\$1,500/ student	1st 2 years post secondary	No	N/A	Taxpayer	Self, spouse, dependents
<b>Lifetime Learning Credit</b>	7/1/1998	Credit	US	\$1,000/ family (20% of \$5,000)	Any post secondary	No	N/A	Taxpayer	Self, spouse, dependents
<b>Coverdell Education Savings Account</b>	1/1/1998	Neither, but income of the Coverdell is not taxed	US	\$2,000/ student	Any (kindergarten on up)	Earnings not taxed when used for education	None if used for education	Anyone may contribute for student under 18 years old	Any student under 30 years old
<b>Student Loan Interest Deduction</b>	1/1/1998	Deduction	US, reduces AZ income	\$2,500	Post secondary	Yes	N/A	Taxpayer	Self, spouse
<b>No Penalty IRA Withdrawal (Regular IRA)</b>	1/1/1998	Neither	US	Any amount	Post secondary including graduate school	No	None	Taxpayer	Self, spouse, child, grandchild
<b>Employer Education Assistance</b>		Neither, but not included in taxable income or Box 1 of W-2	US, reduces AZ income	\$5,250	Post secondary	Excludable from taxable income	N/A	Employer	Employee
<b>Education Savings Bond</b>	Bonds issued after 1/1/1990	Neither	US	Any	Any	No	N/A	Anyone	Self, spouse, dependent
<b>Higher Education Tuition Deduction</b>	1/1/2002 through 12/31/2005	Adjustment	US	\$3,000	Post secondary	Yes	No	Taxpayer	Self, spouse, dependent
<b>Qualified School Tuition Plan (Section 529)</b>		Neither	US	No limit	Post secondary	No	Could be subject to gift tax	Anyone	Anyone
<b>Extra-Curricular School Credit</b>	1/1/1998	AZ Credit; Deduction on US Schedule A	AZ only	\$200/\$250	AZ public school, grade or secondary	No	N/A	Taxpayer	General club or specific student — football, chess, etc.
<b>Private School Tuition Credit</b>	1/1/1998	AZ Credit; Deduction on US Schedule A	AZ only	\$500/\$625	K-12 private schools tuition organization	No	N/A	Taxpayer	Unspecified, qualified student