Postsec Tax Benefits

THE WHITE HOUSE

WASHINGTON

From the Office of:

The Domestic Policy Council

Elena Kagan
Deputy Assistant to the President
for Domestic Policy

TO: Mike/Bill Tanya

FAX: 65581

PHONE:

PAGES: 5

MESSAGE: * Please distribute to all 3

Please call (202) 456-5584 if there are any problems with the transmission.

Rush

Mike / Bill / Tanya —

I think this is what prompted the Begala memo. Seems like a narrower assignment to me!

Elena

P. S. Could you put together a 1-2 pp memo to the President on our current thoughts about September/October events? ASAP. Thanks

Rahm / Begala

Reed

assume a

communications strategy

is there → something

a track to deliver this

at a college or tour.

Elena

P.S. Could you put together a 1-2 pp memo to the President on our current thoughts about September/October events? ASAP. Thanks

Rahm / Begala

Reed

We need a communications strategy on this → should be a talk to deliver week at a college or two

BC

THE PRESIDENT HAS SEEN
8-13-97

Copied
Emanuel
Begala
Reed
COS

School tax breaks may need study

The tax-cut bill signed into law this week is jammed with provisions designed to help families cope with rising college costs. Trouble is, the legislation is thicker than a chemistry textbook and about as much fun to read. USA TODAY personal finance reporter Sandra Block takes a look at some of the new rules and who will benefit.

Ever since their 12-year-old twin daughters were in diapers, Maria and Michael Whiteside of Roanoke, Va., have saved for the girls' college education.

By investing regularly in several mutual funds, they've managed to save about $25,000

MANAGING Your MONEY

in each girl's name. Still, Maria fears it won't be enough.

The Whitesides' combined income — she works at a community college, and he's an electrical linesman — disqualifies them for most financial aid. The family isn't counting on scholarship money, either.

"My children are average kids — they're not jocks," Maria says. "We'll probably have to foot the whole bill."

Now, families like the Whitesides may get relief. The tax bill signed into law this week by President Clinton contains a bevy of tax breaks for parents of college-bound children, graduate students and even adults who want to hone their job skills.

Unfortunately, the provisions are so complex that accountants are trying to figure out what they mean.

Some details won't become clear until the Internal Revenue Service issues its interpretation of the law later this year.

Still, there are steps you can take now to cut college costs for yourself or your children:

▶ **Pay close attention to the dates the provisions take effect.** While a school year typically begins in the fall, the tax bill follows a calendar year.

As the accompanying chart shows, none of the tax credits kick in before Jan. 1, 1998, and some aren't effective until July 1998.

So don't plan on taking any credits on your 1997 tax returns, even if you've got children starting college this fall.

You may want to postpone paying for the spring semester until January if your college allows it. That way, you could probably take full advantage of the tax credits in 1998.

Similarly, if you have an outstanding student loan and intend to start making payments soon, you may want to try deferring the first payment until January. A provision allowing students to deduct interest on their student loans covers payments due after Dec. 31.

In addition, the deduction is limited to the first five years of the loan repayment, so postponing your first payment will buy you some time.

▶ **Keep good records.** The tax bill is jammed with restrictions on how the credits, deductions and other breaks can be used.

You may need to demonstrate that the school your child plans to attend qualifies for a Hope credit, or that the night courses you want to take next year are job-related.

▶ **If you're divorced, or are getting a divorce, take a hard look at how your child-support agreements will affect your eligibility for the new tax credits.** To qualify, a parent must pay the child's college tuition and claim the child as a dependent for tax purposes. If one parent pays the tuition and the other claims the child as a dependent, both may be denied the tax credit.

▶ **If you have young children, start planning now to take advantage of the education individual retirement account (IRA) next year.** The education IRA could be the most attractive provision in the bill, and most families can take advantage of it.

If you start one when your children are young and contribute the maximum permitted every year, you can build up a healthy sum by your child's freshman year.

And like the Roth IRA, you won't have to pay taxes on the withdrawals, as long as the money is used for education. Since the Hope tax credit is only available for the first two years of college, the education IRA can help you pay for the remaining two years.

The law bars families from taking a Hope credit the same year they withdraw money from an education IRA.

But some families may decide to forgo the credit anyway, says Tom Ochsenschlager, partner at accounting firm Grant Thornton.

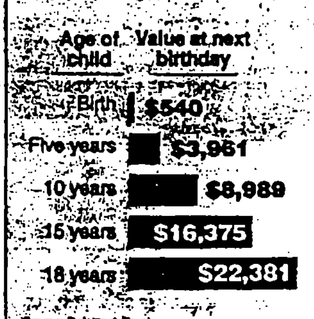
"If you play the education IRA to the fullest extent possible, you may not need the other stuff," he says.

By Don Petersen, AP, for USA TODAY

Road to the future: Maria, left, and Michael Whiteside, of Roanoke, Va., hope to take advantage of education tax credits for 12-year-old twin daughters Samantha, second from right, and Tiffany.

College accounts

How much you could save in an education account if you contributed $500 each year on your child's birthday and earned an 8% annual rate of return:



Source: Deloitte & Touche

By Dave Merrill, USA TODAY

USA TODAY · FRIDAY, AUGUST 8, 1997

A look at the education tax incentives

Hope scholarship tax credit

How it works: The first two years of college, a family can get a maximum tax credit of $1,500 (100% of the first $1,000 in expenses and 50% of the next $1,000). The credit is available for tuition and related expenses but not room and board. To qualify, the student must be enrolled on at least a part-time basis in an accredited college, university or vocational school.

Who qualifies: Single parents with an adjusted gross income (AGI) less than $40,000 a year; married couples with an AGI less than $80,000. Partial credits are available for singles making $40,000 to $50,000 and couples making $80,000 to $100,000.

Restrictions: Parents can't claim the credit for a student who has been convicted of a felony drug offense the year in which the credit applies. Financial aid and scholarship money may reduce the tax credits a family can claim. Parents who don't pay the student's tuition or list the student as a dependent on their tax returns can't claim the credit. Parents who are taking distributions from an education individual retirement account can't use a Hope credit in the same year.

Effective date: Jan. 1, 1998.

Lifetime learning credit

How it works: Families of college juniors, seniors or graduate students can receive a tax credit of up to $1,000 (20% of the first $5,000 of expenses) through 2002.

Working adults also can use it for classes to improve their job skills. Taxpayers can spread the credit over several years. In 2003, the maximum credit will rise to $2,000 (20% of the first $10,000).

Who qualifies: Single parents with an adjusted gross income of less than $40,000; married couples with an AGI of less than $80,000. Partial credits are available for singles who make between $40,000 and $50,000 and couples with an AGI between $80,000 and $100,000. Working adults who meet the income limits can use the credits to take college courses. Part-time students can also use the credits.

Restrictions: Families who are taking money out of their education IRA to pay expenses can't claim the Lifetime learning credit. Working adults must take classes that they can demonstrate will improve their job skills to claim a credit. Parents must pay the child's tuition and claim the child as a dependent to qualify.

Effective date: June 30, 1998.

Education account

How it works: Families can contribute up to $500 a year per child in a special savings account set up specifically for education expenses.

Contributions aren't deductible, but withdrawals and investment earnings are tax-free if the money is used for education. Money left after one child has finished college can be used to pay another child's college costs.

Who qualifies: Single taxpayers with adjustable gross income up to $95,000; married couples with AGI of up to $150,000.

Families who meet the income limits can set up an education IRA even if they're contributing the maximum allowed to their 401(k) plans and other retirement savings accounts.

Restrictions: Although the account is called an education individual retirement account, it has nothing to do with retirement. If all the money in an education IRA isn't used for college, the family may have to pay income taxes and a 10% penalty on the balance.

In fact, the law requires families to withdraw all of the money by the time the child turns 30, even if the individual is still in school.

Effective date: Jan. 1, 1998.

Deduction for student loan interest

How it works: Students can deduct interest on qualified education loans from their taxes.

The limit on the deduction is $1,000 in 1998; $1,500 in 1999; $2,000 in 2000; and then rises to $2,500 in 2001 and beyond.

The deduction is an "above-the-line" deduction, which means taxpayers can use it even if they don't itemize on their tax returns.

Restrictions: The full deduction is limited to single taxpayers who make less than $40,000 a year; singles who make up to $55,000 can take a smaller deduction.

For married couples, the cutoff for the full deduction is $60,000; couples who make up to $75,000 can take a partial deduction.

But taxpayers who are still claimed as a dependent by their parents can't take the deduction.

The deduction is limited to the first five years of the loan.

Effective date: The deduction is available for interest payments due after Dec. 31, 1997.

For existing loans, interest payments can be deducted as long as the loan isn't more than 5 years old.

Postsecondary

CITIZENS' SCHOLARSHIP FOUNDATION of AMERICA

Dollars for Scholars® -- Scholarship Management Services™ -- ScholarShop®

October 15, 1997

Diana C. Phillips
Think College Early Program
Office of the Deputy Secretary
U.S. Department of Education
600 Independence Avenue, S.W.
Washington, DC 20202

Dear Ms. Phillips:

At the suggestion of both Connie Jameson in Mario Moreno's office and of Bill Kincaid at the White House Domestic Policy Office, I am writing you concerning the important work that Citizens' Scholarship Foundation of America (CSFA) is carrying out that fits closely with your "Think College Early" initiative.

CSFA is the nation's largest private sector scholarship and educational support organization. CSFA's mission is to expand access to educational opportunities by involving and assisting communities, corporations, foundations, organizations, and individuals in the support of students and in the encouragement of educational achievement. This mission is carried out through our three major programs: Dollars for Scholars®, Scholarship Management Services™, and ScholarShop®. Two of these programs are directed at efforts that have important implications for your "Thinking College Early" Program.

<u>ScholarShop</u> is a community-based resource center for motivating and preparing students for postsecondary education. The program is usually carried out with another community-based serving partner -- a local school, a Boys & Girls Club, a YMCA, etc. ScholarShop consists of an activity-based curriculum organized around seven modules: Self-Exploration, Career Exploration, Postsecondary Options, College Admissions and Financial Aid Process, Community Involvement, and Transition from High School to College. Youth can start in the ScholarShop program as early as the middle-school years. Under this new program of CSFA, 32 ScholarShop sites are active around the country, and we anticipate 60 active sites by next June.

<u>Dollars for Scholars</u> is a community-based, youth-serving program that mobilizes volunteers through formal scholarship foundations or Dollars for Scholars chapters. Over 760 chapters are active in 40 states. The purpose of the Dollars for Scholars chapters is two-fold: (1) raising local funds to help local students pursue postsecondary education; and (2) providing academic support programs—tutoring, mentoring, workshops for parents, etc.— to challenge and motivate students to do well in school and prepare for postsecondary education. Some chapters begin programs as early as elementary school to start local youth thinking about college.

1505 Riverview Road, P.O. Box 297, St. Peter, MN 56082 -- 507-931-1682 - 507-931-9168 (fax)

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Dollars for Scholars® -- Scholarship Management Services™ -- ScholarShop®

Enclosed you will find the just-published 1997 Annual Report of CSFA. Note especially pp. 6-7 and 8-13 for descriptions of ScholarShop and the early-attention academic support programs of Dollars for Scholars. Other information concerning these two major CSFA programs is also enclosed.

I would appreciate your sending information concerning how CSFA can partner with you in your "Thinking College Early" initiative. What information sources are you providing? Is financial assistance available for nonprofits in connection with your program?

I get to Washington, DC frequently and plan to return in November or early December. I'll ask my executive assistant, Terri Kirby, to call to see if we can get together.

With best wishes,

Sincerely,

William Nelsen

William C. Nelsen
President

WCN/tk

cc: Connie Jameson, Office of Intergovernmental and Interagency Affairs, U.S. Department of Education
Bill Kincaid, Associate Director for Education Policy, Domestic Policy Council
Mary Adams Forsberg, Vice President, Dollars for Scholars
David Bach, Vice President, ScholarShop
Steve Kingsley, Strategic Government Relations, Washington, DC