College Funding

8

things you need to know about...

1.

How much is it going to cost?

College costs increase at about twice the cost of inflation. Current college inflation rates average between 5% and 8%. The best way to estimate future costs is to use a college cost calculator. There are some web based option at **http://www.finaid.org/calculators/costprojector.phtml** and **http://www.savingforcollege.com/college-savings-calculator/index.php**.

2.

How much are you going to pay?

State college tuition is usually less expensive than private colleges. There are several differences between the two colleges. For further information on choosing a private or public college go to **http://www.collegedata.com** or **http://college.gov**. Keep in mind though, that State colleges have In State and Out-Of-State tuition. If you are paying out of State tuition, it can be as expensive, or more expensive than a private college. For more information on how State colleges determine residence, go to **http://www.collegeboard.com**.

3.

Tuition Deduction

You can take a deduction for qualified tuition and expenses you pay for yourself, a spouse or a dependant. You don't have to itemize to take this deduction. http://www.irs.gov/taxtopics/tc457.html.

4.

Student Loan Deduction

Interest you pay for a student loan can be taken as a deduction. You don't need to itemize to take advantage of this deduction. http://www.irs.gov/taxtopics/tc456.html.

5.

Hope and Lifetime Learning Credits

Both the Hope & Lifetime Learning Credits are credits against taxes for qualified education expenses. Qualified expenses include tuition, fees and books. Room and board do not qualify for the credit. The Hope Credit is allowed for expenses in the first two years of post secondary education. The maximum amount of the credit is $1,650 for 2007. http://www.irs.gov/publications/p970/ch02.html. The Lifetime Learning Credit can be used for expenses after the first two years. The maximum amount of the credit is $2,000. http://www.irs.gov/publications/p970/ch03.html. The credits cannot be used together for the same education expenses. For frequently asked questions see http://www.irs.gov/faqs/faq7-4.html.

6.

Coverdell ESAs

Coverdell ESAs allow you make a non-deductible contribution up to $2,000 per year per child for education expenses.

The money grows tax deferred, and if it is distributed for qualified expenses, there is no tax when it is taken out. Unlike 529 Plans, the ESAs allow you to pay for elementary, secondary and college expenses. http://www.savingforcollege.com/intro_to_esas/. If the money is not used for qualified expenses, there is a 10% penalty and taxes due on the growth.

7.

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529 Plans

529 plans are similiar to the ESAs. The money grows tax deferred and if distributed for qualified expenses, there is no tax when it is taken out. The 529 allows a larger contribution (up to $250,000 in some States). Depending on the State you live in and the plan you choose, you may qualify for a State tax deduction. If the money is not used for qualified expenses, there is a 10% penalty and taxes due on the growth. http://www.savingforcollege.com/intro_to_529s/. When contributing to a 529 or ESA Plan Account gifting rules still apply, so if you plan to give more than the allowable gift amount ($12,000 for 2006) to any one individual you should consult a professional.

8.

UGMA/UTMAs

UGMA/UTMAs allow a gift to a minor without putting education strings on it. The advantage of the UTMA/UGMA is that if the child does not go to college or receives a scholarship, they can use the money for any purpose without penalty. **http://www.finaid.org/savings/ugma.phtml**.

The main disadvantage of the account is that it is a gift to the child and at age 18 for an UGMA and age 21 for an UTMA the money belongs to the child. The custodian has no legal ability to retain control over the money. Also, if the account has taxable income, a tax return may have to be filed for the child each year.