GENERAL PLANNING STRATEGIES AND CONSIDERATIONS FOR MAXIMIZING TAX SAVINGS FROM COLLEGE TUITION BENEFITS

- Use or avoid prepayments where appropriate to maximize the benefits in years in which either the total expenses are lower than the benefit upper limit or the AGI tuition benefit phase-outs do not apply.
- For a taxpayer in the HSC or LLC AGI phase-out range, do not claim the dependency exemption for a student. Instead, let the student take the credit. This strategy applies only if the student owes enough federal income tax to take advantage of the credit. This tactic is not available for the HEED.
- Taxpayers at or near the HEED AGI caps should look for additional deductions or income deferrals. A single dollar of reduction in AGI could potentially increase the HEED by $2,000.
- The HEED is generally deductible in computing state taxable income, whereas the HSC and LLC are not.
- Credit hours awarded due to proficiency on advanced placement exams do not count as academic credit for the HSC. Since some students get as many as 30 or more hours of advanced placement credit, this could extend the two-academic-years period by one year or more.
- The HSC limit is per student, not per taxpayer. The LLC and the HEED limits are per taxpayer (or per tax return), not per student. However, no more than one of the three benefits can be claimed with respect to the expenses of any one student.
- Taxpayers with AGI in or slightly above the HSC and LLC phase-out range should consider the benefit of claiming a HEED for the tuition of at least one of the students, if they have more than one in college. This will reduce the taxpayer’s AGI for purposes of the HSC and LSC, and reduce the amount of the phase-out of their credits. It might also affect the phase-out of other tax benefits. A $4,000 HEED deduction could increase the percentage of the HSC and LLC the taxpayer is allowed for another student by up to 40% (20% for married filing jointly). ❑