

IV. Education Incentives

During the past eight years, there has been an exponential growth of complex education incentives. This tax bill modifies and enhances most of those incentives.

Under current law, an education IRA may be funded with cash in the amount of \$500 per beneficiary under age 18 each year. The amounts grow tax-free and may be withdrawn tax-free by the beneficiary for "qualified higher education expenses." These expenses include tuition, books and limited room and board. Distributions must be made within 30 days after age 30, but the account may be rolled over into an education IRA for another family member.

The new bill will change the name of the education IRA to "Coverdell Education Savings Accounts." The permissible contribution will be increased to \$2,000 per year and the phase-out range for married taxpayers will be increased from \$190,000 to \$220,000 of modified AGI.

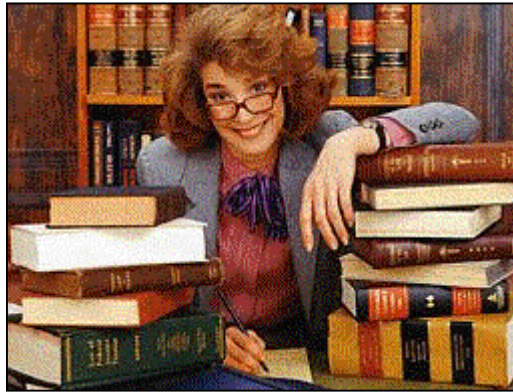


"Qualified educational expenses" will now also include expenditures for elementary and secondary education. In addition, the age limits will not apply to special-needs beneficiaries.

Section 529 plans are referred to as "qualified state tuition programs" and allow a person to deposit cash for the higher education expenses of a designated beneficiary. These amounts then grow tax-free and, if used for qualified educational benefits, may be distributed and expended for that purpose by the beneficiary with reduced payment of tax.

In a dramatic expansion of this plan, EGTRRA 2001 allows any eligible education institution, including a private school, to create its own qualified

Section 529 Plan. Furthermore, in a manner similar to Coverdell Education Savings Accounts, expenditures for qualified expenses will not be taxable to the students. This dramatic expansion will permit nearly all educational institutions to allow grandparents and parents to "pre-fund" tuition and other qualified educational expenses.



A third provision of the education program is to extend the Section 127 provision for employer-provided educational assistance of \$5,250 and allow expenditures for graduate education. Finally, the phase-outs for deductions of student loan interest are expanded and there will be greater flexibility in issuance of bonds by non-profits.

Both the education IRA and the Section 529 plans include one added new benefit. If the amounts are all used separately for qualified education expenses, then the HOPE credit or the Lifetime Learning credit and the education IRA or Section 529 plan may be used in the same year.