

Improved Tax Breaks For Education Expenses

By Charles Clar

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This feature deals with USA tax laws and how you can use them to your advantage. It is made available on a more or less weekly basis.

Improved Tax Breaks For Education Expenses

Under the \$1.35 trillion tax law just enacted, going to school might become more affordable as improved tax breaks for education expenses come on line in 2002.

Among the new provisions are an increased annual contribution limit to Education IRAs and a change in the time limit for deducting student loan interest.

Many folks had not been contributing to Education IRAs because the annual limit of \$500 was too low to build much college savings even if started at a child's birth.

So Congress with President Bush's blessing quadrupled the limit to \$2,000 a year. This means people who invest \$2,000 per year at an eight percent annual return will have more than \$80,000 in eighteen years. At the \$500 current limit, the total would only grow to \$20,000. A heck of a difference!

Also, the new law allows you to use the money to cover educational expenses such as private school tuition and school-related computer and internet service costs at the elementary and secondary level, not just college. This is a BIG change.

Even though the annual deduction for student loan

interest was not raised from \$2,500 a year, graduates now have more than five years to take that deduction.

The new bill repeals the five year limit as well as the restriction that voluntary interest payments aren't deductible.

For single taxpayers, the interest deduction will be allowed if you earn \$65,000 or less, an increase from the current \$50,000. If married, the income limit goes from \$100,000 to \$130,000. This new rule is effective for interest paid after December 31, 2001.

As always, PLEASE make sure you read and understand the fine print. It wouldn't be taxes in America otherwise!

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