

Tax Information for the FAFSA

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Are you eligible to File a 1040A or EZ?

1040EZ Requirements

- Must file Single or Married filing jointly
- Can not claim any dependents
- Can not claim any adjustments to income
- Have to be under age 65 and not blind
- Taxable Income less than \$100,000
- Does not claim any tax credits except for earned income credit
- Has received no advanced earned income credit payments
- Has income from only wages, salaries, tips, unemployment, taxable scholarships/fellowships, grants, and taxable interest income can not exceed \$1,500
- Do not itemize (Schedule A)

(This is not an the complete list)

1040A Requirements

- Taxable Income less than \$100,000
 - Do not itemize (Schedule A)
 - Do not receive income from your own business or farm (Schedules C & F)
 - Do not file schedule D for capital gains
 - Do not have rental income (Schedule E)
 - Do not receive alimony
- (This is not an the complete list)

What was your Adjusted Gross Income?

Where to Find it

- On a tax transcript “Adjusted Gross Income per Computer”
- On the 1040 line 37
- On the 1040A line 21
- On the 1040EZ Line 4

What was your income tax?

Where to Find it

- On a tax transcript “Income Tax After Credits per Computer”
- On the 1040 line 55
- On the 1040A line 35
- On the 1040EZ Line 11

How many exemptions?

Where to Find it

- On a tax transcript “Exemption Number”
- On the 1040 line 6d
- On the 1040A line 6d
- On the 1040EZ
 - if filing for 1 person then enter 1
 - If filing a joint return then enter 2

How much did you earn from working?

Where to Find it

- W-2 Forms
- On 1040 line 7 (Wages)
- On 1040 line 12 (Schedule C)
- On 1040 line 18 (Schedule F)
- On K-1 Box 14 (Self-employment earnings)

How to Get a Tax Return Transcript?

- Online @ www.irs.gov
 - Will need: SS#, birthdate, address and zip code
 - Will be sent to address on tax return
- By calling - 1-800-908-9946
 - If filled jointly will need the primary taxpayer information
- By mail with form 4506-T
 - This allows the student to have the transcript sent straight to a third party (school financial aid department)

Parent's Frequently Asked Questions

- Should I even bother to fill out a FAFSA?
- How are 529 Plans handled for FAFSA?
- Are scholarships taxable?
- What assets do I have to count?
 - Family farm partnerships

529 Plans – A brief history

- Created in 1996 named after Section 529 of the Internal Revenue Code
- Education savings plan operated by a state or educational institution.
- Designed to help families set aside funds for future college costs.

2 Types of 529 Plans

- Savings Plans- work similar to an IRA or 401K by investing in mutual funds or similar investments
- Prepaid Plans – let you prepay all or part of the costs of an in-state public college educations
 - Educational institutions can offer a prepaid 529 plan but not a 529 savings plan

Iowa 529 Plan

- College Savings Iowa
 - A Vanguard managed 529 saving program use 4 age based options along with nine static portfolios
- Iowa Advisor 529 Plan
 - Managed by Upromise Investments and offers 16 portfolio options using mutual funds from 5 different fund families

529 Benefits

- Federal Tax

- Non deductible contributions grow tax deferred and distributions to pay for college costs are federally tax free.

- State Tax

- Iowa 529 plans contributions are deductible up to \$2,865 per beneficiary account.

Example Mom and Dad each are account owners for a 529 plan for each of two children. Mom and Dad may deduct up to \$11,460 ($\$ 2,865 \times 4$) on their Iowa tax return.

- Donor Retains Control

- Low maintenance

- Flexible

- Substantial deposits allowed

How is a 529 plan treated for financial aid?

- If student is a dependent the 529 plan is considered a parent asset (if account owner is parent or the dependent student)
- If student is not a dependent and the student is the account owner the 529 is treated as a student asset
- If account owner is not parent or student it does not count as an asset for federal financial aid purposes

(However, a student may have to report distributions received from the account as income for this purpose.)

Educational Tax Incentives

- Scholarships
- Tuition Reduction
- Coverdale Education Savings Accounts
- Higher Education Expenses Deduction
- American Opportunity Credit
- Lifetime Learning Credit
- Tuition and Fees Deduction
- Student Loan Interest Deduction

Scholarships

- Scholarship proceeds are excludible from gross income to the extent they are used for college tuitions, college fees, textbooks and course related materials.
 - This means amounts used for room and board are taxable.
 - Scholarships awarded for part-time work such as work-study are included as taxable income

Tuition Assistance

- Employees of educational programs may exclude from taxable income the value of any tuition reduction they or their dependants have received. Plan must not discriminate between employees.
- Graduate tuition reductions might also be excluded

Tuition Assistance

- Internal Revenue Code (“IRC”) Section 127 allows an employee to exclude from income up to \$5250 in tuition assistance received from a Qualified Education Assistance Program
- Working condition fringe benefits are excludible from the income of an employee under IRC § 132(a)(3)
 - Has to be for either
 - 1) keeping skills current but not obtaining a job in a different field
 - 2) meeting continuing education or other requirements imposed by law or by an employer (can’t be initial job requirements such as a law degree).

American Opportunity Credit

- 100 percent of first \$2000 and 25% of next \$2000 spent on tuition, fees, textbooks, and related course materials.
 - Student has to be in the first four years of undergraduate studies
 - Must be enrolled at least half time
 - Cannot be convicted of a federal or state drug felony
 - Phase-outs apply
 - 40% refundable

Lifetime Learning Credit

- Not refundable in contrast to the American Opportunity Credit
- Credit equals 20% of first \$10,000 spent on tuition, fees, and course materials but NOT textbooks.
- Only required to be registered in one class total
- Can be either graduate or undergraduate classes
- Phase-outs apply

More on Credits

- American Opportunity and Lifetime Learning Credits
 - Cannot be used in conjunction with the same qualified expenses paid on behalf of the taxpayer or dependent
 - Room and board expenses do not qualify
 - Expenses for certain classes that revolve around a game or hobby do not qualify
 - Cannot be claimed in regards to expenses that were paid for by an employer and excluded from income by the taxpayer

Tuition Reduction

- \$4000 of qualified expenses can be deducted to arrive at AGI
- Applies to expenses paid on behalf of the taxpayer or their dependents
- Qualified expenses include tuition, fees, and related course materials but NOT textbooks unless course specific
- If a taxpayer utilizes this deduction for expenses paid on behalf of themselves or a dependent, they cannot claim an educational credit on behalf of that same taxpayer.

Student Loan Interest

- Reduces AGI by up to \$2500
- Phase-out is \$75,000 for a single person or \$150,000 for married individuals
- Student must be you, your spouse or a dependent.

Questions