

Tax Savings Opportunities for Landmark College Students & Parents



LANDMARK COLLEGE
FRIDAY SEPTEMBER 24, 2015



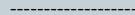
Wilder Business Service

North Business Services d/b/a Wilder Business Service

Presenters



Russell K. North, MST, CPA, CFP®
Owner and Chief Tax Strategist
Wilder Business Service



G. Dino Koff MS
Director of Financial Aid
Dartmouth College

Let's Get Acquainted



Purpose of Today's Program



- To discuss how you might have the government participate (pay for) your student's education here at Landmark
- To give you the resources to do it
- To educate your tax preparer, as they may have not done this before
- As time permits, to answer general questions about this topic

Investing in Your Child's Future



2015-2016 Landmark College Academic Year Expenses

Tuition	\$51,200
Room Fee	5,530
Board Fee	5,180
Fees	<u>130</u>
Total	<u>\$62,040</u>



How Do We Pay For This?

1. Institutional Grants

*Talk to the Financial Aid
Department*





How Do We Pay For This?

1. Institutional Grants
- 2. Outside Scholarships**

*High School
Foundations/ Agencies
Community Organizations
Industries*





How Do We Pay For This?

1. Institutional Grants
2. Outside Scholarships
3. **Federal / State Grants**
4. **Federal Loans**
5. **Private Loans**

Available to students & parents





How Do We Pay For This?

1. Institutional Grants
2. Outside Scholarships
3. Federal / State Grants
4. Federal Loans
5. Private Loans
- 6. Savings & Gifts**



The grandparents, for example, can pay into a 529 plan

Parents need to start 529 plans very early on

Grandparents can front-load a 529 plan (giving five years' worth of annual gifts of up to \$14,000 at once, for a total of up to \$70,000 per grandparent, per beneficiary) without having to pay a gift tax or chipping away at the lifetime gift tax exclusion

Early whole life insurance purchases for children creates cash value

Definitions



- ✓ An **“Itemized Deduction”** (such as medical expenses) goes on Schedule A (along with charitable deductions, mortgage interest, real estate taxes, etc.)
- ✓ Must exceed 10% of Adjusted Gross Income (7.5% if over 65)
- ✓ You need more than \$12,600 in Itemized Deductions to exceed the “Standard Deduction”
- ✓ An Itemized Deduction reduces your taxes based on your marginal tax rate (e.g. \$10,000 x 28%)

Standard Deduction



Filing status

Year	Single	Married Filing Jointly	Married Filing Separate	Head of Household	Over 65, Blind, etc
2015	\$6,300	\$12,600	\$6,300	\$9,250	Add \$1,250 per taxpayer

More Definitions



- ✓ A “**Tax Credit**” is a dollar for dollar reduction in tax (e.g., a \$2,000 tax credit lowers your taxes by that amount!)
- ✓ A “**Refundable Tax Credit**” is even more wonderful. You get the money even if you owe no taxes! Free Money!!!



How Do We Pay For This?

1. Institutional Grants
2. Outside Scholarships
3. Federal / State Grants
4. Federal Loans
5. Private Loans
6. Savings & Gifts
7. **Tax Savings Through
Deductions & Credits**



IRS Definitions




“Avoidance of taxes is not a criminal offense. Any attempt to reduce, avoid, minimize, or alleviate taxes by legitimate means is permissible.

The distinction between evasion and avoidance is fine yet definite.

One who avoids tax does not conceal or misrepresent. He shapes events to reduce or eliminate tax liability and upon the happening of the events, makes a complete disclosure. Evasion, on the other hand, involves deceit, subterfuge, camouflage, concealment, some attempt to color or obscure events, or making things seem other than what they are.”

— Internal Revenue Service



“There is nothing wrong with a strategy to avoid the payment of taxes. The Internal Revenue Code doesn’t prevent that.”

— Former Chief Justice
William Rehnquist



The Education Tax Credit



For 2015, the American Opportunity Tax Credit can be used for:

- ✓ 4 years
- ✓ Maximum tax credit of up to \$2,500 of college costs (100% of the first \$2,000 plus 25% of the next \$2,000 per child, for a total of \$2,500)
- ✓ Up to 40% of the credit is refundable



The Education Tax Credit



For 2015, the American Opportunity Tax Credit has a phase-out provision:

- ✓ Individuals with incomes of up to \$90,000 and Married Couples with incomes of up to \$180,000 can qualify for credit for each student. Extended through 2017 tax year

Case Study 1



- Carl and Rachel Willis... One Child “Xander”
- Adjusted Gross Income: \$121,225
- Itemized deductions : \$ 27,350 before Landmark payment
- **Tax Due Before Landmark \$ 11,819 before Landmark payment**
- **Tax Due AFTER Landmark \$ 1,836 after Landmark payment**
- Marginal Tax rate: 15%



Case Study 1 continued



- Continued: Carl and Rachel Willis... One Child “Xander”
- Claiming Landmark expenses as a Tax Credit & Medical Deductions
- American Opportunity Tax Credit: \$2,500
- Medical Deduction: \$56,530 (\$60,530-4,000)
- Tax savings resulting from Landmark investment: \$ 9,983
 - ✓ *Does not include any potential state tax savings or from additional medical deductions, or from additional itemized deductions*
 - ✓ *After tax cost of Landmark \$ 50,547 resulting in 16.5% reduction in cost*
 - ✓ *Taxes declined 84.5%*



IRS publications 502 and 907

- 502-Medical and Dental Expenses
- 907-Tax Highlights for Persons with Disabilities



Department of the Treasury
Internal Revenue Service

IRS publications 907 and 502



- Landmark College's tuition, room and board and fees may qualify as a medical deduction for tax purposes.
- IRS publications 907 and 502 provide information about medical expenses.

How does it affect you?



- In addition to tuition and fees, other costs such as:
 - ✓ Books
 - ✓ Computers
 - ✓ Travel and other educational related expenses may be tax deductible
- We recommend that you consult your tax advisor regarding the deductibility of these expenses in your situation

Medical Care

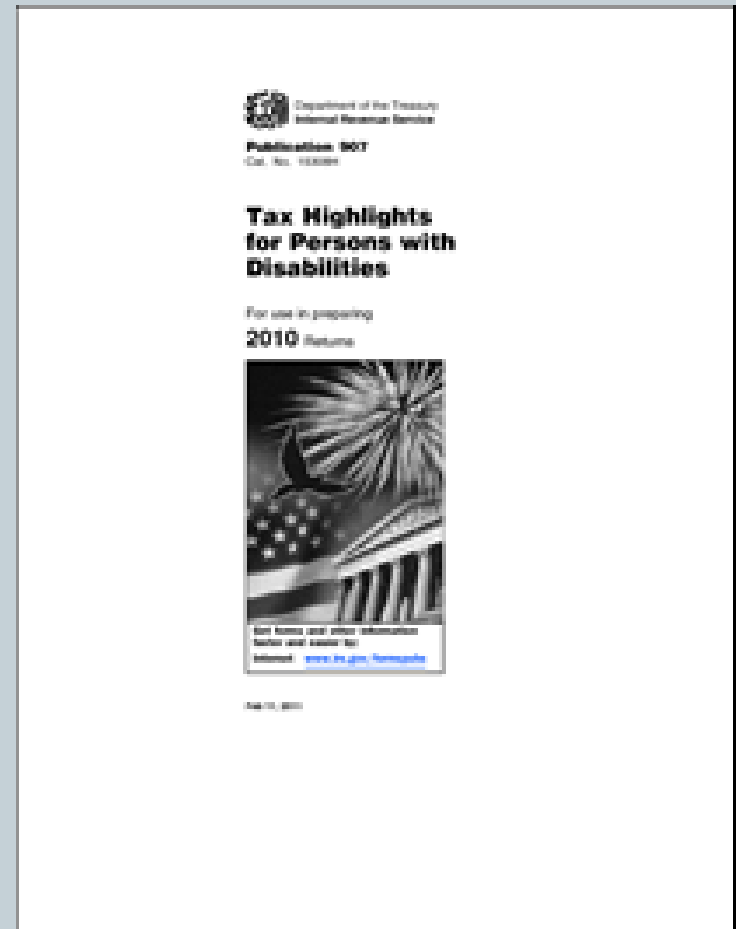


Medical Care includes amounts paid (A) for the diagnosis, cure, mitigation, treatment or prevention of disease, or for the purpose of affecting any structure or function of the body (including amounts paid for accident or health insurance) (and) (B) for transportation primarily for and essential to medical care.

Section 213(d)(1) & (2) of the Internal Revenue Code of 1986.

Medical Expenses

You can include in medical expenses the cost (tuition, meals, and lodging) of attending a school that furnishes special education to help a child to overcome learning disabilities. A doctor must recommend that the child attend the school. Overcoming the learning disabilities must be a principal reason for attending the school, and any ordinary education received must be incidental to the special education provided.



What Do You Need?

While IRS publications say you need a Doctor to recommend the School in order to qualify for the medical deduction, numerous IRS rulings and court cases have allowed a deduction where a formal diagnosis by a Doctor or other qualified professional exists of a specific condition that requires treatment.



Court Rulings And Resources



- **Urbauer vs. Commissioner (TCM 1992-170)**-deductions for tuition, room, board and required fees **allowed** as medical deductions at college preparatory school.
- **E.F. Glaze vs. Commissioner (TCM 1961-244)** -establishes criteria for deducting costs as medical expenses:
 - The principal purpose of expenditure is for “medical” reasons,
 - If the expenditures directly relate to the treatment, and
 - could the treatment reasonably be expected to be effective.
- **Lawrence D. Greisdorf (54 TC 1684)**
 - Medical deduction allowed since **principal purpose for attendance was school’s therapeutic value** and wasn’t its incidental educational benefits.

Court Rulings And Resources



- **Private Letter Ruling 8401024**

- School servicing students with Dyslexia ruled to qualify as a “Special School” under the definition of I.R.S Regulation 1.213-1(e)(1)(V)(a) thus qualifying expenses as medical deductions.

- **Private Letter Ruling 8447014**

- Curriculum of a special school may include some ordinary education, but this must be incidental to the primary purpose of the school to enable the student to compensate for or overcome a handicap, in order to prepare that student for future normal education and living. If school qualifies as special school tuition and other expenses, including expenses of transportation to and from the school to the extent such transportation is primarily for and essential to the Medical care, are deductible.

Court Rulings And Resources



- **Revenue Ruling 78-340**-tuition under Dr. recommended program designed to return student to traditional program within a few years deductible as medical expenses.
- **Private Letter Ruling 200521003**
 - Helping the student overcome a physical or mental handicap and move on to normal education and living is the essence of special education. Normal education is not medical care because it is not designed to help someone overcome a medical disability. Thus, a physician or other qualified professional must diagnose a medical condition requiring special education to correct the condition for that education to be medical care.

Court Rulings And Resources



Private Letter 200521003 continued

- The school need not employ physicians to provide that special education, but must have professional staff competent to design and supervise a curriculum providing medical care. Overcoming the learning disabilities must be a principal reason for attending the school, and any ordinary education received must be incidental to the special education provided. Section 1.213-1(e)(1)(v)(a); Rev. Rul. 70-285, 1970-1 C.B. 52.
- Dyslexia can be sufficiently severe as to be such a handicap. Rev. Rul. 69-607, 1969-2 C.B. 40.

Case Study 2



- John & Sue Farrell ... One Child “Dustin”
- Adjusted Gross Income: \$250,000
- Itemized deductions : \$ 42,000 before Landmark payment
- **Tax Due Before Landmark \$ 49,907 before Landmark
payment**
- **Tax Due AFTER Landmark \$ 38,184 after Landmark
payment**
- Marginal Tax rate: 28%



Case Study 2 continued



- Continued: John & Sue Farrell ... One Child “Mookie”
- Claiming Landmark expenses as a Medical Deduction
- American Opportunity Tax Credit: \$0– they made too much \$
- Medical Deduction: \$60,530
- Tax savings resulting from Landmark investment: \$ 11,725
 - ✓ *Does not include any potential state tax savings or from additional medical deductions.*
 - ✓ *After tax cost of Landmark \$ 48,805 resulting in 19.4% reduction in cost*
 - ✓ *Taxes declined 23.5%*

What does Paying Mean?



- Eligible for deduction/credit in year paid except for loans
- Loans
 - Parent
 - Treated as paid when credited to student's account
 - Eligible for deduction/credit
 - Student
 - Treated as paid when credited to student's account
 - Eligible only for tax credit on parent's return if they are claimed as a dependent



Case Study 3 continued



- Continued: Torey and Kristin Lovullo One Child “Jackie”
- Claiming Landmark expenses as a Medical Deduction
- American Opportunity Tax Credit: \$ 2,500
- Medical Deduction: \$ 47,530 as Medical Deduction
(60,530-7,500-4,000-(5,500-4,000))
- Tax savings resulting from Landmark investment: \$ 6,702
 - ✓ *Does not include any potential state tax savings or from additional medical deductions or additional unused deductions*
 - ✓ *Revise W-4 withholdings to put \$ in pocket today to assist in making tuition payments*
 - ✓ *After tax cost of Landmark \$ 46,328, a 12.6% reduction in cost*
 - ✓ *Taxes declined 135%*

Also reduced by:

- \$7,500 Scholarship
- \$5,500 Stafford Loan

Start Planning Now

Document all your medical costs (including mileage) to maximize your tax deductions and further reduce the after-tax costs of your Landmark investment.



2015 Tax Information



- **Qualifying Child & Qualifying Relative:**
 - ✓ Medical or education deductions/credits are available only for individuals for whom you can claim a dependency exemption subject to certain exceptions for medical deductions.
- **Mileage Rates:**
 - ✓ Medical \$.23 in 2015
 - ✓ Business .575 in 2015

Fortifying Your Deduction



- Add a statement to return detailing medical deduction claimed and principal purpose for attendance at Landmark College for its therapeutic values, illustrative example available
- If selected for audit, provide detail of deduction, information about Landmark College and various reference materials to your representative or the IRS agent if you are handling your own case.
- **Key point to stress to IRS agent is that therapeutic treatment was primary reason for attendance at Landmark College and education received was incidental to this treatment.**

Other Funding Methods



- **Withdrawal from Health Savings Account:** If tax-free expenses qualify for medical deduction, no medical deduction allowed for amounts withdrawn from HSA account (can't take both HSA deduction and in itemized medical deduction)
- **Withdrawal from ROTH IRA account,** amounts contributed/converted come out first, no taxes due. Earnings after 59 1/2 and five years of account being open are tax free. Can still claim Medical deduction or Education credits if otherwise eligible.

Other Funding Methods



- **Withdrawal from IRA account**, taxable, but withdrawals for education expenses and medical expenses in excess of 10.0% of AGI not subject to 10% early withdrawal penalty. Expenses still qualify for medical/education deduction or credit if qualification criteria are met. Income will increase AGI which may affect deductions and credits.
- **Withdrawal from Qualified Plan**, if allowable and if structured as a loan, it is nontaxable if repaid. If not repaid - taxable. If structured as a taxable withdrawal, funds used for medical expenses in excess of 10.0% of AGI not subject to the 10% penalty; education does not qualify for exception from the penalty. Unpaid loans upon separation from service are taxable, and potentially subject to penalty.

Moving Forward



**KEEP
CALM
AND
KEEP MOVING
FORWARD**

Homework



- Start Today, ensure all medical deductions are captured
- Speak with your tax professional/financial advisor, don't wait until last minute. It can be hard to get their attention as April 15th approaches. Plan Day to Save Tomorrow!!!!!!!!!!!!!!!!!!!!
- Start thinking of how to coordinate strategies
- We are here to help!

Contact Information



Russell K North, CPA
Wilder Business Service

contact me with questions via email:

rnorth@wilder-business.com

Phone: 802-295-9093



Wilder Business Service

North Business Services d/b/a Wilder Business Service