

Tax Savings Opportunities for Landmark College Students & Parents



Landmark College Saturday,
February 17, 2024



Wilder Business Service

North Business Services d/b/a Wilder Business Service

Presenter



Russell K. North, MST, CPA

Chief Tax Strategist

Wilder Business Service

Purpose of Today's Program



- To discuss how the government can invest in (help pay for) your student's education here at Landmark ensuring their the maximum participation assisting you in your investment in the College
- To assist your tax preparer so they have the information necessary to advise you, thus making tax time easier for everone
- To have lots of fun talking about taxes, yes, it is fun.

Investing in Your Child's Future



2023-2024 Landmark College Academic Year Expenses

Tuition	64,290
Room	7,460
Board	<u>6,850</u>
Total	78,600

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



Definitions



- ✓ An “**Itemized Deduction**” (such as medical expenses) goes on Schedule A (along with charitable deductions, mortgage interest, real estate taxes, and state and local income taxes (subject to certain limitations in 2023 & 2024).

Must exceed 7.5% of Adjusted Gross Income (AGI) for the 2023/2024 tax year.

You need more than \$27,700 (married filing jointly, \$13,850 single) in Itemized Deductions for 2023 (25,900 and 12,950 in 2022)

to exceed the “Standard Deduction” to benefit from “itemizing.”

- ✓ Itemized Deductions reduce your taxes based on your marginal tax rate (e.g. \$10,000 deductions in excess of the standard deduction) x 22% results in a tax savings of \$2,200.

More Definitions



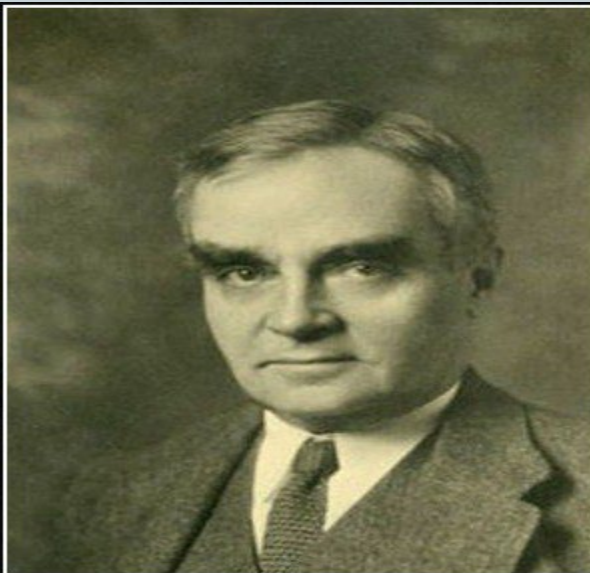
- ✓ A “**Tax Credit**” is a dollar-for-dollar reduction in tax (e.g., a \$2,000 tax credit lowers your taxes by \$2,000!)
- ✓ A “**Refundable Tax Credit**” is much better. You get the money even if you owe no taxes! The maximum refundable portion of the American Opportunity tax credit is \$1,000. ((40% of the total credit allowed).

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



In america, there are two tax
systems: one for the informed and
one for the uninformed. Both are
legal

— *Learned Hand* —

AZ QUOTES

The Education Tax Credit



For 2023, the American Opportunity Tax Credit can be used for:

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



The Education Tax Credit



For 2023, 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.

Case Study 1



- Chester & Anna Nimitz... One Chester
- Adjusted Gross Income: \$121,225
- Itemized deductions : \$ 18,000 before Landmark payment, didn't benefit from itemizing
- **Tax Due Before Landmark: \$ 12,769 before Landmark College payment**
- **Tax refund AFTER Landmark \$ 1,000after La payment**



Case Study 1 continued



- Continued: Nimitz
- Claiming Landmark expenses as a Tax Credit & Medical Deductions
- American Opportunity Tax Credit: \$2,500
- Medical Deduction: \$74,600 (\$78,600-4,000)

Tax savings resulting from Landmark investment: \$ 13,769

✓ *Does not include any potential state tax savings or from additional medical deductions, or from additional itemized deductions*

✓ *After tax cost of Landmark \$ 64,831 resulting in 18% reduction in cost*



IRS publications 502 and 907

- 502-Medical and Dental Expenses, page 13, pages 5-17 discuss various types of allowable deductions
- 907-Tax Highlights for Persons with Disabilities, page 4



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.
- **Publication 502 Special Education**
- You can include in medical expenses fees you pay on a doctor's recommendation for a child's tutoring by a teacher who is specially trained and qualified to work with children who have learning disabilities caused by mental or physical impairments, including nervous system disorders.
- 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. 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.
- You can't include in medical expenses the cost of sending a child with behavioral problems to a school where the course of study and the disciplinary methods have a beneficial effect on the child's attitude if the availability of medical care in the school isn't a principal reason for sending the student there.

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 (first thing Monday) 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.

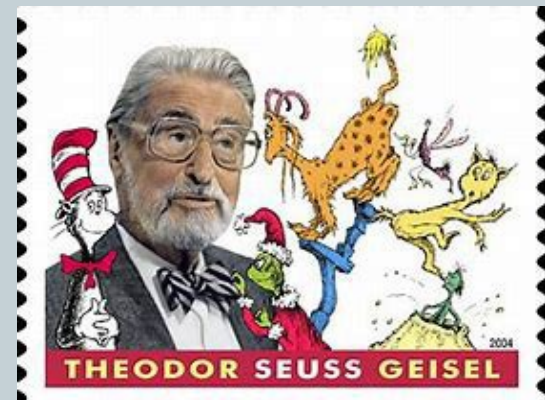
Medical Expenses



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. 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?

There are 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



- **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



● **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.

Case Study 2



- Alexander & Anne Spruance... One Child Raymond
- Adjusted Gross Income: \$250,000
- Itemized deductions : \$ 42,944 before Landmark
payment
- **Tax Due Before Landmark \$ 45,440 before Landmark
payment**
- **Tax Due AFTER Landmark \$28,115 after Landmark
payment**
- Marginal Tax Rate 24%



Case Study 2 continued



- Continued: Alexander & Anne ... One Child Raymond
- Claiming Landmark expenses as a Medical Deduction
- American Opportunity Tax Credit: \$0– they made too much \$
- Medical Deduction: \$78,600



Tax savings resulting from Landmark investment: \$ 17,325

✓ *Does not include any potential state tax savings or from additional medical deductions.*

✓ *After tax cost of Landmark \$ 61,275 resulting in 22% reduction in cost*

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 (not medical deduction) on parent's return if they are claimed as a dependent



Case Study 3



- William & Anna Halsey One Child William
- Adjusted Gross Income: \$ 70,000
- Itemized deductions : \$ 3,891 before Landmark
payment taking Standard Deduction
- **Tax Due Before Landmark \$ 3,782 before Landmark
payment**
- **Refund Due AFTER Landmark \$ 1,000 after L
payment**



Case Study 3 continued



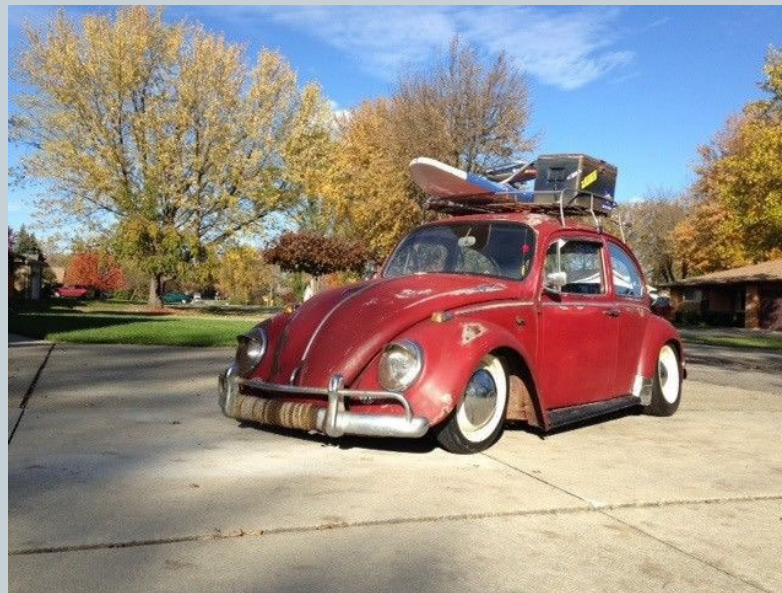
- Continued: Alexander & Anna One Child Bull
- Claiming Landmark expenses as a Medical Deduction
- American Opportunity Tax Credit: \$ 2,500
- Medical Deduction: \$ 65,600 as Medical Deduction
(78,600-7,500-4,000-(5,500-4,000))
- Tax savings resulting from Landmark investment: \$ 4,782
- *Does not include 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 payments

Also reduced by:

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

Start Planning Now

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



2022/23 Tax Information



- Qualifying Child & Qualifying Relative:

- ✓ Medical or education deductions/credits are available only for individuals for whom you can claim as a dependency subject to certain exceptions for medical deductions.

- Mileage Rates:

- ✓ Medical . 22 in 2023
- ✓ Business 65.5

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, not generally recommended.
- **Critical to stress to IRS agent that therapeutic treatment was primary reason for attendance at Landmark College and education received was incidental to this treatment.**

Other Tax Strategies



- **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 7.5% 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 are not subject to the 10% penalty; education does not

Deducting Forward



We have what it
takes to take what
you have.

Homework



- Start Today, ensure all medical deductions are captured, leverage the tax savings like a pro
- Speak with your tax professional/financial advisor, don't wait until last minute. It can be impossible to get their attention as the 2024 deadline of April 15th approaches.

Contact Information



Russell K North, CPA
Wilder Business Service

contact me with questions via:

rnorth@wilder-business.com

Phone: 802-295-9093



Wilder Business Service

North Business Services d/b/a Wilder Business Service