CPA Practice Advisor

available in 2021.

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Are your children heading back to college campuses this fall? It may cost you more than it did for remote learning, but at least the tax law provides several tax breaks for higher education, including saving plans for college. The tuition-and-fees deduction is no longer around—the Consolidated Appropriations Act (CAA) officially repealed it—but here are four other tax-savers available in 2021.

1. Higher education credits: There are two, not just one, higher education credits on the books. Generally, you can claim one or the other, but not both.

- The maximum $2,500 American Opportunity Tax Credit (AOTC) is available for qualified expenses such as tuition, room and board, books, computers and supplies for up to four years of study for every student in the family. It is phased out

2. Section 529 plans: We don't have to tell you that it costs a pretty penny to send a child to college. But there's an easy way you can save if you can manage to send aside money ahead of time.

Consider setting up a Section 529 plan for a young child. These tax-favored plans are operated by the individual states. Typically, you can take advantage of generous six-figure contribution limits for the state-run plan. Funds accumulate inside the account without any tax erosion. Then, when the child attends college, distributions are exempt from tax if they're used to pay qualified expenses.

Under the Tax Cuts and Jobs Act (TCJA), a Section 529 plan may also be used to pay up to $10,000 in tuition at an elementary or secondary school.

3. Coverdell Education Savings Accounts: Although a Coverdell Education Savings Account (CESA) won't give you the same pop as a Section 529 plan, it can still be a handy savings device. With a CESA, you can contribute up to $2,000 a year. Any future earnings are exempt from current tax, as are distributions used for qualified expenses like tuition and room-and-board.

The ability to contribute to a CESA is phased out, but at relatively high levels. Furthermore, this option is also available for children in kindergarten through their senior year in high school. Consider this as a supplement to other college savings plans.

4. Scholarships: If your child is fortunate enough to earn a college scholarship, there's a tax bonus to the deal. The scholarship is exempt from tax if the student is a degree candidate at an eligible school and the scholarship is used to pay tuition and doesn't represent payment for teaching, research or other services required as a condition for receiving the scholarship, unless a special exception applies.

However, be aware that the tax exemption for scholarships is lost if the money is