

In this issue:

Federal updates	1
Benefits of higher education include tax relief.....	1
TG updates	5
Teleconference on system development rescheduled.....	5
Trends and issues	6
<i>Edufacts™</i> - February 2003.....	6
Legislative updates	7
This, that, and the other...	7

Federal updates

Benefits of higher education include tax relief

This article outlines some of the tax benefits currently available to students and parents who invest in higher education. You may wish to share this information with the students and parents you serve. Please feel free to copy or reprint the article and distribute it to your customers.

For many students and their parents, tax season is a time of grumbling and groaning. Forms, paperwork, and the April 15 tax filing deadline can add stress to an already hectic life. But if you're paying off student loans or paying for college tuition and fees, your higher education investment might help you in a way you didn't expect—by reducing your tax bill.

There are three higher education related tax benefits that students and parents may be able to take advantage of:

- The student loan interest deduction benefit can reduce the taxable income of many student and parent loan borrowers based on the amount of interest the borrower paid over the tax year.
- The tuition and fees deduction, new for the 2002 tax year, can reduce the taxable income of taxpayers based on college tuition and fees paid during the tax year.
- The Hope and Lifetime Learning tax credits allow many taxpayers to claim a credit against their federal income taxes for college tuition and fees paid during the tax year.

Student loan interest deduction

Both student and parent borrowers may claim the student loan interest deduction, under which borrowers may deduct interest payments they made on their higher education loans during the 2002 tax year. The deduction allows borrowers to decrease their total taxable income by as much as \$2,500.

The student loan interest deduction can be of particular value to recent college graduates. Unlike tax credits, which require that a taxpayer earn a large enough income to take advantage, the student loan interest deduction actually reduces the amount of the borrower's income subject to federal taxes prior to the application of other tax deductions. This is especially good news for those only a few years out of college who, whether due to newness to the workforce, the slow economy, or both, may not earn enough income to be able to take advantage of the higher education tax credits.

The IRS allows a taxpayer to claim the deduction for interest amounts paid on loans taken out for that taxpayer, the taxpayer's spouse, or someone who was a dependent of the taxpayer at the time the loan was taken out.

To count towards the interest deduction, the interest paid must have been for a loan obtained only for the payment of college tuition and qualified related expenses. Typically the interest deduction is applied to interest on federal student loans such as Perkins, Stafford, PLUS, and Consolidation loans.

Revolving lines of credit such as credit card debt may also qualify when used by a borrower exclusively to pay qualified higher education expenses. In addition, interest paid on loans even when interest payments are not required, such as when a Stafford loan is in deferment status, can also qualify.

A tax filer's income level may affect the amount he or she may claim as a deduction. Any limitation on the amount of the deduction is determined through calculation of the modified adjusted gross income (AGI). A tax filer's AGI is calculated as part of completing a tax return.

For income tax returns due on April 15, 2003, the following limits apply:

- A single filer whose AGI for 2002 is \$50,000 or less is eligible to receive the full deduction; a filer with an AGI between \$50,000 and \$65,000 is eligible for a reduced deduction.
- For a married couple filing a joint return, the AGI threshold to receive a full deduction is \$100,000; the reduced deduction applies to couples with an AGI between \$100,000 and \$130,000.
- A single filer whose AGI is \$65,000 or greater is not eligible to receive the student loan interest deduction. The same is true for a married couple with an AGI of \$130,000 or more.
- A taxpayer whose tax filing status is married filing separately from his or her spouse is not eligible to claim the deduction.

Tuition and fees deduction

The tuition and fees deduction allows a taxpayer to deduct as much as \$3,000 from his or her taxable income for tuition and fees paid for the taxpayer, his or her spouse, or his or her dependents. The eligibility requirements for claiming the tuition and fees deduction, including limits based on total adjusted income, generally mirror those for the student loan interest deduction.

The qualified tuition and related expenses that may be applied towards the tuition and fees deduction are those amounts paid in 2002 for enrollment during that year or for an academic period beginning any time from January 1, 2002 to March 31, 2003. The deduction may not be claimed for amounts applied towards either the Hope or Lifetime Learning tax credits.

In most cases, both the student loan interest and tuition and fees deductions may be claimed by filing either Form 1040 or Form 1040A, known respectively as the long-form 1040 and short-form 1040. Taxpayers wishing to claim either deduction will not be able to do so using Form 1040EZ, "Income Tax Return for Single and Joint Filers With No Dependents."

Hope and lifetime learning tax credits

The Hope and Lifetime Learning tax credits, though not necessarily as simple in application as the deductions, can provide important help to families and individuals juggling the often considerable cost of paying for college. Both credits are claimed for qualified tuition and related expenses paid during the tax year, but there are important distinctions between the two.

The Hope Credit is available only for the first two years of a student's higher education for a maximum of \$1,500 per year. The Lifetime Learning Credit is available for all years of a student's higher education for a maximum of \$1,000 per year.

Other important differences between the two credits include:

- The Hope Credit maximum of \$1,500 is for each eligible student listed on a return, while the Lifetime Learning Credit maximum of \$1,000 is per tax return.
- Students for whom the Hope Credit is claimed must be pursuing an undergraduate degree or other recognized education credential, but students for whom the Lifetime Learning Credit is claimed are not required to be in a degree program.
- Students for whom the Hope Credit is claimed must be enrolled at least half-time for an academic period that began during the tax year, while the Lifetime Learning Credit is available for any student taking one or more college courses, including courses to improve job skills.
- The Hope Credit may not be claimed for any student who had a felony drug conviction on his or her record at the end of the tax year, whereas the Lifetime Learning Credit carries no such restriction.

Only one credit can be claimed against higher education expenses for a particular tax year. Also, neither credit may be claimed if a taxpayer chooses to utilize the student loan interest deduction.

As with the income tax deductions, the Hope and Lifetime Learning credits are subject to income limits based on a tax filer's AGI. For tax year 2002:

- A tax filer with an AGI below \$41,000 is eligible to claim the full credit.
- A tax filer with an AGI between \$41,000 and \$51,000 or a couple filing a joint return with an AGI between \$82,000 and \$102,000 is only eligible to claim a reduced credit.
- An individual with an AGI of \$51,000 or more or a couple with an AGI of \$102,000 or more is not eligible to claim either the Hope or Lifetime Learning tax credits.

To claim either credit, a tax filer must complete and submit Form 8863, "Education Credits (Hope and Lifetime Learning Credits)," with his or her tax return.

What are qualified higher education expenses?

Tuition and mandatory fees paid to a college or university are considered qualified expenses for the purposes of the higher education tax benefits. However, student activities fees, as well as costs for books, supplies or equipment may not be applied towards the credits unless they are paid directly to the college or university as a condition for enrollment. Personal expenses, even when related to college attendance, do not qualify.

Higher education tax benefits history

The Hope and Lifetime Learning tax credits and the student loan interest deduction were created as a part of the Taxpayer Relief Act of 1997, enacted on August 5, 1997. These benefits were added to ease the burden of paying for college placed on families and students, especially middle-class families who might not qualify for need-based aid but may still be struggling with the cost of college.

The Economic Growth and Tax Reconciliation Act of 2001 added the tuition and fees deduction and raised the applicable income limits, expanding eligibility for the existing higher education tax benefits to include a larger number of Americans.

Get more information!

Publication 970, published on an annual basis by the IRS, is the official guide to understanding federal higher education income tax benefits, providing important instructions and guidance and detailing the full eligibility requirements for each benefit. In addition to the tax credits and deductions discussed above, Publication 970 elaborates on the other higher education related tax benefits that are available.

The instruction booklets for forms 1040 and 1040A also include instructions on how the various tax benefits should be applied to an individual tax return.

These publications—along with a great deal of other tax information and guidance—are available on the IRS Web site at www.irs.gov. The IRS also offers taxpayers free answers to tax questions at 1-800-TAX-1040 (829-1040).

The Texas Financial Aid Information Center, staffed by the knowledgeable professionals on the TG customer assistance team, can help you in understanding the higher education tax benefits that might be available to you. To contact the

Information Center, call (877) 782-7322 toll free or ask your question online at www.collegefortexans.com/comments.

TG updates

Teleconference on system development rescheduled

TG is rescheduling its teleconference, "What You Should Know about System Development Projects," in the wake of an ice storm that shut down TG and much of central Texas last Tuesday.

The one-hour teleconference has been rescheduled for 2 p.m. CST on Thursday, March 13, 2003. As always, the event is free and open to any financial aid professional.

Agenda

The session will include:

- A high-level review of system development project phases.
- A review of project controls with examples of documentation used and timelines and techniques for gathering information to validate project performance.
- Lessons learned and best practices from a variety of system development projects and reference materials.

The presentation portion of the session will be followed by a time for questions, answers, and discussion with participants. To ensure that all areas of interest are covered, participants are encouraged to submit their questions to Sheila Casey at sheila.casey@tgsic.org before the session.

About the presenter

Phil Flora, session presenter, is the vice president of internal audit at TG. Phil has more than 14 years of student loan experience with TG, and has led the internal audit team since 1994. His experience prior to TG included work in banking, public accounting, and cost accounting. Altogether, Phil has more than 20 years of auditing and management experience, and he has earned the following certifications: CIA, CISA, CFE, and CCSA.

Phil recently became a qualified instructor for "Practical Software and Systems Measurement (PSM): A Foundation for Objective Project Management." PSM is an issues-driven, flexible measurement process for system and software measurement. During the past two years, Phil has facilitated several training sessions and presentations, including the following sessions:

- "What You Should Know About System Development Projects" - *Mapping Your Future* 2002 Conference
- "Assessing the Systems Development Process - Texas State Auditors Office" - External Training & Virginia Auditor of Public Accounts
- "Auditing/Monitoring System Development Projects" - MIS Training/IIA & ConSec '01

Registration information

Although the event is free of charge, enrollment is required. You can register and get further details on the teleconference by calling Premiere Conferencing at (800) 289-0579. When registering, provide the confirmation number 452142.

On Thursday, March 13, registrants should call (800) 946-0785 promptly at 1:50 p.m. CST and again reference the confirmation number.

Trends and issues

Edufacts™ - February 2003

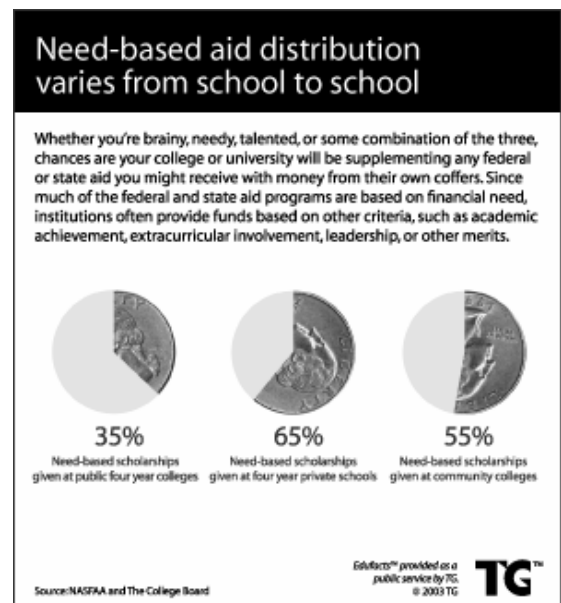
TG responds to thousands of calls each year through the Texas Financial Aid Information Center. One of the most commonly asked questions is "Are there financial aid programs that are not based on a student's or family's income?"

While most federal and state grant programs, such as the Pell Grant and TEXAS Grant, are based entirely or in-part on financial need, most colleges and universities fund institutional grants and scholarships that are based on other criteria. Commonly referred to as "merit" aid, these awards may be based on a student's academic performance, athletic talent, extracurricular involvement, leadership ability, or other factors. Most institutions, especially four-year private colleges, rely on a combination of endowments, gifts from alumni and other constituents, and tuition and fee dollars to fund their institutional grant and scholarship programs.

A recent survey from the National Association of Student Financial Aid Administrators (NASFAA) and The College Board indicates that only 35 percent of the scholarships and grants distributed by four-year public colleges and universities were awarded based on undergraduates' demonstrated financial need. In contrast, 65 percent of the awards provided by four-year private schools and 55 percent of the grants distributed by community colleges were provided based entirely or partly on need.

More information about sources of financial aid for college-bound students and their families is available on TG's public service Web site, *Adventures in Education*, at www.aie.org, or by calling the Texas Financial Aid Information Center at (888) 311-8881.

(Source: NASFAA and The College Board, 2001 Survey of Undergraduate Financial Aid Policies, Practices, and Procedures)



Legislative updates

The February 27, 2003, issue of the *Legislative Report* provides informative summaries of major bills filed for consideration by the 78th Texas Legislature that concern student financial aid, tuition, fees, and Closing the Gaps topics. Read the details at www.tgslc.org/lege_report/index.cfm.

This, that, and the other...

Did you know that the Texas Financial Aid Information Center is supported by TG team members? The Texas Higher Education Coordinating Board, the organization that established the center, selected the TG customer assistance team to operate it.

Our customer assistance team provides guidance for families and students on all state and federal financial aid programs. Callers can get information on the TEXAS Grant, scholarships, college work-study, and student loans, as well as 529 college savings plans and higher education income tax credits.

TG designers also created a new logo to go with the call center's new number: (888) 311-8881. With these changes, TG and its partners hope to attract even more Texas families and students to use the free resource.



P.O. Box 201725
Austin, Texas 78720-1725
(800) 252-9743
(512) 219-5700
(512) 219-4560 TDD

Shoptalk Online is published by TG. Unless specifically noted, the policies and procedures outlined in *Shoptalk Online* apply only to loans made under TG's guarantee and not to loans underwritten by other guarantors.

To ask questions about *Shoptalk Online*, please contact Communications at (800) 252-9743, ext. 4732 or communications@tgslc.org.

Contributors to this edition: Kristin Boyer, Andrés Cordero, Jeffrey Grove, Kelly Kaelin, Art Martinez, Steve Schmidt, and George Torres. Edited by TG Communications and Policy and Regulatory Affairs. Designed by TG Communications.

©2003 Texas Guaranteed Student Loan Corporation.

The TG logo and Edufacts are trademarks of Texas Guaranteed Student Loan Corporation.