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# NEWSLETTER

## **IN THIS ISSUE:**

### ATTENTION, DESPERATE V- DAY SHOPPERS! - DAYANA YOCHIM

+Protesters Speak Out On FinAid +Aid And Diversity



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Let's face it — if you're reading this, then you're doing one of three things:

*roses* left!" Slapping your forehead against your computer monitor before Googling "lastminuteValentine's Day gifts in (insert your city)." Smugly savoring a Necco Valentine candy, while other poor schlubs curse Hallmark.

Want some help out of the schlubhouse on this holiest of lovers' days? Go home early and present your sweetheart with a newly balanced checkbook and organized financial paperwork.

No, this is not a setup. While there may be more conventionally romantic ways to shower your loved one with proof of your everlasting devotion, roses and massage gift certificates expire a lot faster than do lovingly reconciled account statements. And there's no bigger turnoff than a desperate Valentine's Day gift.

When your significant other fails to find the words to express his thanks for your thoughtfulness, simply explain that although money issues continue to be the No. 1 cause of divorce in the United States, you're not going to let that happen to you two lovebirds.

**Reel your "Sig-O" in.** If your better half isn't interested in talking finances, lure him in with an enticing reward. What kind of couch, vacation, home, retirement, plasma TV does he envision? When you explore the possibilities that well-managed finances could afford, your reluctant partner is more likely to become a willing participant.

**Split up ... your financial tasks, that is.** Managing your money relationship is a two-person job. (Couched resentment is very unbecoming and not good for your skin.) Take equal responsibility for keeping your joint finances on track. If you balance the checkbook, have him gather and organize those ATM and grocery store receipts you put in the fishbowl by the front door every day. Or consider an equitable distribution of other chores, and have your shmoopy take on some house task that ruins your manicures.

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### TAX BENEFITS ON EDUCATION EXPENSES

When you are paying for law school, it is sometimes difficult to see the light at the end of the tunnel. Law school can be insanely expensive. However, did you know that some of your higher education expenses may help you reduce your federal income tax? The Internal Revenue Service allows tax savings for individuals and families who pay higher education costs. The benefits vary depending on your eligibility, but both deductions, which reduce the amount of income subject to tax before the tax is calculated, and tax credits, which reduce the amount of income tax dollarfor-dollar after the tax is calculated, are offered by the IRS.

**Hope Scholarship Tax Credit:** One type of benefit offered by the IRS is the Hope Scholarship Tax Credit. This tax credit may be worth up to \$1,500 per eligible student for a

taxpayer who paid qualified tuition and related expenses. The catch is that the Hope Scholarship Tax Credit only applies to students in their first two years of college. The eligible student must be enrolled at least half time and be working toward a degree or educational credential. This tax credit applies to students who paid for qualified expenses, including tuition and fees, but excluding room and board, books, and transportation.

The Hope Scholarship Tax Credit is designed to be reduced or phased out as the taxpayer's income increases. For a single filer, the reduction begins with income of \$40,000 and the credit is eliminated at \$50,000. For joint filers, the reduction begins with income of \$80,000 and the credit is eliminated at \$100,000. Also, the credit may only be

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Although the market for student loan services is extremely broad, our company has chosen to focus on one elite niche: We cater to the particular needs of law students and graduates. On average, a juris doctorate student will have around \$100,000 in student loans by the time he or she graduates - a much larger amount than many other kinds of graduate students. A J.D. will also often have questions that only someone with a legal background would think to ask. Established and run by attorneys, Law School Loans is prepared to fulfill the needs of law school graduates at every level. We invite you to visit us at <u>www.LawSchoolLoans.com</u>.



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### Tax Benefits On Education Expenses countinued from page 1

claimed by either the student or their parent. It is a "per student" credit intended to be used by parents for dependent students or by independent students.

**Lifetime Learning Tax Credit:** After completing your first two years of education, you become eligible for a Lifetime Learning Tax Credit to help defray the costs of tuition and related expenses. You may claim a Lifetime Learning Tax Credit of up to \$1,000 if the eligible student is enrolled in at least one course. For this type of tax credit, you do not need to be pursuing a degree. Even if you are just taking classes to improve your job skills, you may be eligible for this credit.

The Lifetime Learning Tax Credit equals 20% of the first \$5,000 of tuition and related fees paid by the taxpayer. The reduction for this tax credit, based on income, is the same as with the Hope credit. This credit is designed as a "per return" credit. Regardless of the number of dependent students a parent claims on his/her tax return, he/she may only take one Lifetime Learning Tax Credit.

A taxpayer may take only one of the credits for each dependent student each year. For example, if a family has two children in college--one in the second year and one in the fourth year--the taxpayer may claim the Hope credit for one and the Lifetime Learning credit for the other. A taxpayer may also claim the Hope credit during the first two years of college and the Lifetime Learning credit for the remaining years. There is no limit to the number of years you may take the Lifetime Learning credit; so it does apply to graduate-level students as well.

**Student Loan Interest Deduction:** Students who paid interest on student loans may deduct up to \$2,000 of the interest paid. This adjustment reduces the amount of taxable income, and a taxpayer may take this deduction even if he/she does not itemize deductions. Eligible loans include those taken out to pay tuition, fees, living expenses, books, supplies, transportation, and equipment expenses. Most federal and private education loans would be eligible for this type of deduction. However, the student must be the taxpayer, the taxpayer's spouse, or his/ her dependent; and the student must be enrolled at least half time and working toward a degree.

This deduction applies to interest paid during the first five years of repayment. Similar to education tax credits, the deduction is reduced as income increases, beginning at \$40,000 for single filers and \$60,000 for joint filers. If you are a single tax return filer with an income of \$55,000 or a joint tax filer with income greater than \$75,000, you will not be eligible for this interest deduction.

**Employer Provided Educational Assistance:** The tax code allows employees to exclude up to \$5,250 of employer-provided education benefits from their taxable income. This means that employers can provide educational benefits such as tuition, fees, books, supplies, and equipment tax free. However, this only applies to undergraduate-level courses.

**Education IRAs:** Education IRAs (Individual Retirement Accounts) are trusts or custodial accounts designed to help families save for a child's education. The money in these accounts grows tax free until withdrawn. The student benefiting from an education IRA is permitted to withdraw the funds at any time. If the amount does not exceed the student's higher education expenses in a tax year--including tuition, fees, books, supplies, and room and board--the withdrawal will be tax free.

If a student withdraws more than his/her qualified expenses for the year, a portion of the education IRA withdrawal will be taxable. The taxable amount will be considered the same as income and must be reported as earnings. The student's taxable withdrawal may also be subject to a 10% additional tax.

Taxpayers benefiting from a tax-free education IRA distribution cannot take advantage of the Hope Scholarship or Lifetime Learning credit in the same year.

Taxpayers may choose to withdraw funds from a Roth IRA or traditional IRA without penalty if the funds will be used for the higher education expenses of the taxpayer, spouse, child, or even grandchild. A portion of the amount withdrawn will be taxable, but there will not be an additional 10% tax for an early withdrawal as long as the funds are being used for tuition, fees, books, equipment, and room and board for the year.

Student Loan Cancellation: If a borrower takes a community service job--with a nonprofit, tax-exempt, charitable, or education institution that provides loan forgiveness--he/she may not need to include the cancelled amount in his/her gross income for the year. To qualify, the loan must have included a provision for this type of program; and it must have been issued by a qualified lender--including the government, a tax-exempt public benefit corporation, or an educational institution--with the intention of helping borrowers attend educational institutions.

For more information on saving money on your taxes due to educational expenses, contact a tax professional or visit the IRS' website at www.irs.gov. Taking advantage of these programs is one way to begin saving money immediately on your education. *Continued on page 3* 



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#### Attention, Desperatev - Day countinued from page 1

**Schedule a summit.** The financial world is fond of quarterly reports — go ahead and set a date for the inaugural event. Your State of the Union address should cover (1) the amount of money you currently have together, (2) the percentage of change from the previous quarter, and (3) any transactions (buying, selling, saving, overspending, getting a puppy). Doing this on a regular basis will keep him in the loop and inspire more paperwork discipline for yourself.

**Build a budget for two (or more).** There are no hard-and-fast rules to budgeting that you must follow till death do you part. There are some rules of thumb, though. A personal favorite on budgeting is "The 60% Solution," proposed by author Richard Jenkins. It's a simple way for math phobics like me to help organize spending. He proposes that 60% of your income should go to "committed expenses" (mortgage, food, utilities, etc.), 10% for "fun money," another 10% for irregular expenses (your short-term savings), 10% for retirement savings, and 10% for long-term saving and/or debt reduction. Consider this

a starting point for your own budget; bend the rules to fit your own situation.

Along the way, come up with rewards for meeting some of your savings goals. Get creative. Oh, all right: Make it fresh flowers (or a heated bra), if you must.

Don't Let Money Mangle Your Relationship

Marry for Looks and Spend Frivolously

Bouncing Bundle of Potential

Touchy-Feely Finances. Ew.

#### Dayana Yochim is the author of The Motley Fool's Guide to Couples & Cash, which is chock-full of ways to prevent bedtime money blowups.

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