How new tax laws can affect your education plans

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According to recent statistics, Americans owe more than $1.48 trillion in student loan debt. That's $620 billion more than the total amount of U.S. credit card debt. So when the talk of tax reform first began last year, there was a lot of speculation about what the implications might be for educational loans and debt. Specifically, students seeking loans — and the 44 million already paying on student loans — worried that the changes would mean money out of their pockets. That's because under provisions of the original proposals, things like tax-free tuition waivers and the student loan interest and educational assistance deductions were threatened.

Those initial proposed changes could have been devastating to students, potentially eliminating up to $2,500 in loan interest deductions. Furthermore, students getting employer-assisted tuition would have had to count that as taxable income, thereby bumping them up to a higher income-tax rate. Lastly, tuition waivers — which provide graduate students with the opportunity to attend programs at no cost in exchange for teaching or research-related work — would have also counted as taxable income.

When the final bill was passed in December, however, none of those things became part of the legislation. Instead, both the American Opportunities and Lifelong Learner credits were left intact, as was the student loan interest deduction. Many American students breathed a collective sigh of relief.

So, what does the tax law mean for education?

As it turns out, the most significant impact of the tax reform on education may prove to be the expanded use permitted under **Section 529 accounts**. These are the tax-advantaged savings and prepaid tuition plans designed to encourage people to save for future college costs. Legally known as “qualified tuition plans,” 529 accounts are sponsored by states, state agencies, or educational institutions, and are authorized by Section 529 of the Internal Revenue Service code.

Starting in 2018, the potential use of Section 529 accounts will be significantly expanded because “qualifying distributions” will include tuition at public, private or religious schools. Aside from college tuition, section 529 also applies to elementary or secondary schools. Section 529 will be limited to $10,000 per student during any taxable year. Still, the new legislation only affects the federal tax treatment and each state has the option to review the impact of the federal change to determine whether they will adopt a similar approach at a state income tax level.

While the use of 529 accounts was expanded, the use of Coverdell Education Savings Accounts, which essentially enabled college tuition money to be put aside tax-free at a rate of up to $2,000 a year, will be phased out in the new plan.

Other implications

As previously mentioned, employer tuition assisted also remains nontaxable under the new tax law. Employers can contribute up to $5,250 a year to your qualifying continuing education.

The student loan interest deduction of up to $2,500 also stays intact. This benefit still gets phased out the more you earn, of course. For example, single tax filers earning more than $80,000 and couples earning over $165,000 no longer qualify for this deduction. As of the 2016 tax filing year, some 12 million Americans **claimed**the student loan deduction, saving them an average of $1,068 on their tax bills.

For those Americans that would have been most affected by the proposed changes in the initial version of the new tax bill, the pro-education inclusions in the final version come as a welcome relief. For the majority of those with student loan debt and whose income is low enough to qualify for these deductions and tax savings, there will continue to be benefits on taxes to offset and ease the costs of higher education.

And for those who are just beginning the journey into securing educational funding in 2018, it will be important to understand the different types of student loans available and what the tax implications will be beginning next tax season when 2018 taxes get filed.

Know the tax implications of long-term repayment options

You'll also want to remember the implications of choosing longer-term loan repayment options. Many people choose to defer the bulk of those loans for as long as possible, even up to 20 years or more. For example, when debt is forgiven (on loans that don't qualify for public service loan forgiveness) any remaining loan balance can be added to taxable income the year it is forgiven.

Unfortunately, many of these people fail to consider the tax consequences. Investopedia cites this scenario as a cautionary tale: If you are making $150,000 25 years from now and you have $90,000 in student debt being discharged, your income for that year will be $240,000. Using the new tax reform rates, that extra $90,000 means a tax liability of $29,400. If you're choosing a long-term loan repayment option, it's crucial to make sure you have a savings plan in place to deal with that tax bill later on.

Wherever your past, current, or future education expenses stand, gaining all of the information you can and planning accordingly will give you the best opportunity to minimize the tax implications and mitigate any inadvertent damage to your credit score. By planning for tax liability and using the **best strategies** to repay your student loans, you'll leave yourself in the best shape in terms of both taxes and credit.

If you've fallen behind on your student loans and believe your credit has already been negatively impacted, you may benefit from a professional credit repair service.

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