

# MONEY

## Management

Volume 13, Issue 3

### “Taxing” Issues for Education in 2003

The rising cost of education is a national concern. To help taxpayers manage the financial burden, the federal government provides certain tax benefits.

However, with legislative changes and inflation adjustments, staying on top of the opportunities available to you can be challenging. For 2003, the Internal Revenue Service (IRS) provides the following student loan deductions, education credits, and college tuition deductions.

#### Student Loan Deductions

The income limits for student loan deductions increased in 2002, and will remain the same in 2003. Furthermore, the IRS eliminated

the 60-month limitation period. Prior to tax year 2002, only interest payments made within the first 60 months of loan repayment qualified for the deduction.

Now, single taxpayers with **modified adjusted gross incomes (MAGIs)** of \$50,000 or less (\$100,000 for married couples filing jointly) are eligible to deduct up to \$2,500 of interest paid on a student loan that covered qualified education expenses, such as tuition, room, and board. Single filers with MAGIs less than \$65,000, and joint filers with MAGIs less than

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### Retirement—A Community Audition

A house once filled with the constant clamoring sounds of a growing family has grown silent. Family visits have become few and far between. The silence seems deafening. If these thoughts seem familiar, maybe you and your spouse have outgrown a home you once considered to be too small.

With many other soon-to-be seniors finding themselves in similar situations, **retirement**

**communities**, also known as **55+ communities**, have become a possible alternative for people looking to downsize their homes. These neighborhoods, or complexes, which vary from condominium-style settings to single family homes, usually require that at least one member of the household be age 55 or older.

Retirement communities typically offer an active and

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## Is a Reverse Mortgage Right for You?

An increasing number of retirees could be forced to lower their standards of living due to a combination of rising expenses, limited or fixed benefits, and longer life spans. For those who own their own homes, however, the **reverse mortgage** could literally produce a change in fortune.

Reverse mortgages allow you to annuitize all, or part, of the **equity** that's built up in your house so that you can receive a fixed monthly payment. Or, to view it another way, a reverse mortgage mirrors the cash flow of a regular mortgage. Instead of getting a single lump sum at closing, which you repay monthly, the loan is advanced to you in



monthly increments. You pay back nothing until the term is up, when the advances plus interest must be repaid, presumably from the proceeds of the sale of your home.

### Fixed-Term Reverse Mortgages

On a fixed-term reverse mortgage, the lender's monthly advances are based on the amount of equity you have in the house, the amount of the initial dis-

bursement, if any, and whether the term is three, five, ten, or fifteen years. These reverse mortgages are available from lenders in all states. Private lenders typically work with government agencies and nonprofit groups for the aging. In fact, these organizations helped to start most of today's existing programs.

A fixed-term reverse mortgage may be a wise choice if you are a homeowner who needs income to tide you over until a **pension** or **annuity** is established. It may also be a good choice if you or your parents are waiting for space to open in a retirement housing development. On the other hand, such mortgages may not be wise if you want to spend the rest of your life in your house, because in some cases, borrowers must sell their homes to pay back the loan.

### Equity Options

If you wish to maintain some ownership in your property for the purpose of leaving a portion of it to your heirs, some contracts will allow you to specify the amount of equity in your house that you wish to assign to the loan company. If real estate prices decline after you take out the loan, it will not affect the remainder of your estate. Instead, the lending company would bear the loss.

As is the case with all other financial choices, deciding on a reverse mortgage may not be the best move for everyone. However, under the appropriate circumstances, a reverse mortgage may provide added financial security or the ability to maintain one's lifestyle during retirement years. A financial professional can help explain the potential advantages and pitfalls of a reverse mortgage. **M**

# “Taxing” Issues for Education in 2003

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\$130,000, qualify for partial deductions. This represents a significant increase from tax year 2001 when the phase out applied to single filers with MAGIs between \$40,000 and \$55,000, and to joint filers with MAGIs between \$60,000 and \$75,000.

## Education Credits

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) provided a boost to the **Hope Scholarship Credit** and the **Lifetime Learning Credit**. Income eligibility limits rose, and are now subject to annual inflation adjustments.

credits in the same year, you may claim either credit but not both.

## College Tuition Deductions

For those whose income exceeds the Hope Scholarship and Lifetime Learning Credit limits, an above-the-line deduction applies to qualified higher education costs from 2002 through 2005. The deduction “sunset” after 2005 (unless Congress acts to extend it). The deduction is a dollar-for-dollar amount, up to a maximum, and can be claimed only by those with AGIs below a certain amount as follows in the chart below:

Year	Deduction limit	AGI limit for single filers	AGI limit on joint returns
2002–2003	\$3,000	Not over \$65,000	Not over \$130,000
2004–2005	\$4,000	Not over \$65,000	Not over \$130,000
2004–2005	\$2,000	Not over \$80,000	Not over \$160,000
2006 and beyond	No deduction	—	—

*Note: The deduction is not subject to a phase-out for income over the AGI limits. Even one dollar of excess AGI means that no deduction can be claimed. This deduction cannot be claimed for any student on whose behalf the Hope or Lifetime Learning Credit is being claimed for the year.*

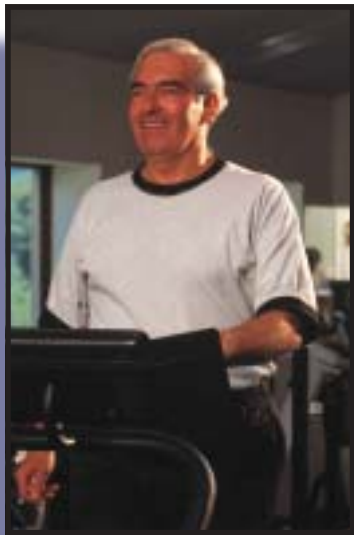
For 2003, eligibility phases out for married couples filing jointly with modified adjusted gross incomes of \$83,000 (\$41,000 for single filers). In addition, the Hope Credit, which provides a \$1,500 tax credit for college education expenses during a student’s first two years, will also be eligible for yearly inflation adjustments. Beginning in 2003, the Lifetime Learning Credit, which applies not only to undergraduate study, but also to graduate and professional education pursuits, now covers 20% of the first \$10,000 in expenses. If a student qualifies for both

Whether it’s your child’s education or your own, proper planning can help fund the search for knowledge. A tax professional can help you develop a strategy that targets your needs and opportunities. Higher education may be a distant dream you hold for a child, or a financial imperative staring you in the face. Either way, you can take immediate steps to begin meeting this challenge.

This information provides a brief summary of certain tax benefits for higher education. As always, you must consult with your own tax professional to determine if you are eligible for any of the tax benefits listed above. **M**

# Retirement—A Community Audition

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independent lifestyle to those who do not require **assisted living facilities (ALFs)**. The Housing for Older Persons Act of 1995 eliminated the requirement that these communities have “significant facilities and services designed to meet the physical and social needs of older persons.” This legislation has increased the popularity of such communities as an alternative for people age 55 and over, who do not require assistive care.

## Considerations

Relocation, of any kind, requires a careful examination of the possible pros and cons. Before selling your home to move to the newest 55+ community, consider the following:

**Security.** Retirement communities may offer security that a typical neighborhood would not. Generally, they have security guards at the entrance of the neighborhood or building. Knowing this added protection exists, you may sleep more soundly at night.

**Recreation.** With people living longer than ever before, gone are the days when retirement brings to mind an idle existence. These days, retirement can be as active and as fun as you make it. Typically, retirement communities offer a recreation center that manages group activities that may be as vigorous as sporting events, or as passive as card games.

**Medical Facilities.** Many retirement communities have medical facilities located within the property limits. You

or your spouse may not require constant care; however, it can be comforting to know that qualified medical professionals are accessible at any time.

**Maintenance.** Although you might have once considered shoveling snow, mowing the lawn, and picking weeds pleasurable pastimes, they may now be tiresome tasks. Oftentimes, these self-contained neighborhoods handle exterior maintenance—including lawn care and snow removal. A retirement community enables you to enjoy a yard, without having to maintain it.

**Costs.** The services retirement communities provide come at costs that must be considered in addition to typical homeowners’ expenses. Usually, there are entrance fees, as well as monthly maintenance costs (similar to condo fees). These additional fees may increase your purchase price by thousands of dollars.

**Limited Socialization.** While many people consider a retirement community’s socially-oriented lifestyle an advantage, some consider it a disadvantage. If transportation is not readily available, the prospect of frequently being surrounded by the same group of people could seem confining.

Determining where you want to spend your “golden years” is a decision that requires serious consideration. However, whether you choose to stay in your current situation, decide to call a retirement community home, or opt to explore other living arrangements, it is important that *you* are comfortable with your choice. **M**

## A Parting Thought...

Did you know that searching for a new job can be tax deductible? The costs of your job hunt may lessen your tax burden if you are looking for a position in the same field as your former job, itemize when you file, and have reasonable expenses related to your search that exceed 2% of your adjusted gross income. This 2% limit

may include other miscellaneous deductions, such as non-reimbursed education expenses that are work related or dues to a professional society. Qualified job search expenses include résumé preparation and mailing costs, employment agency fees, and certain travel and transportation expenses. As with all deductions, it is important to save your receipts.