Anchin Alert

Anchin, Block & Anchin LLP
Accountants and Advisors

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The Protecting Americans from Tax Hikes (PATH) Act of 2015 - Educational Benefits

On December 18, 2015, Congress passed and the President signed *The Protecting Americans from Tax Hikes (PATH) Act of 2015*. This legislation extends or retroactively renews and makes permanent a number of federal tax provisions including certain educational benefits.

The American Opportunity Tax credit (AOTC) was scheduled to revert to the previously enacted Hope credit after 2017. The PATH Act extends the AOTC permanently. The AOTC allows eligible taxpayers to take an annual credit of up to $2,500 for qualified tuition and related expenses for each eligible student for each of the first four years of postsecondary education. If no taxes are owed, 40% of the credit may be refundable. The credit phases out based on modified adjusted gross income (MAGI) beginning at $80,000 for single filers and $160,000 for joint filers, indexed for inflation. The above-the-line deduction for qualified deduction for qualified tuition and fees is extended through 2016 under the PATH ACT, which allows a deduction of up to $4,000 in tuition and fees per student for eligible taxpayers whose adjusted gross income (AGI) doesn't exceed $65,000 ($130,000 for joint filers) or, for those beyond those amounts, $2,000 for taxpayers whose AGI doesn't exceed $80,000 ($160,000 for joint filers).

The PATH Act also makes several changes affecting 529 plans, retroactive to the beginning of 2015.

These changes are:

1. Expenses for the purchase of a computer or peripheral equipment (e.g., printers), computer software, and Internet access or related services are considered qualified higher education expenses (QHEE) if the items are used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible education institution.
2. Account owners can re-contribute a refund from an eligible educational institution of amounts paid out of a beneficiary's 529 plan account for qualified expenses into the same or another 529 account for the same beneficiary without paying federal income taxes or penalties. A re-contribution must be made within 60 days of receiving it, and the re-contributed amount cannot exceed the amount of the refund. Refunds received after December 31, 2014 and before December 18, 2015 (the date the law was enacted) may be re-contributed by **February 16, 2016** (60 days after the law was enacted). It's very important for each account owner to keep all records of refunds and re-contributions.
3. Under the PATH ACT, accounts with same owner and same beneficiary are no longer required to be aggregated for the purposes of calculating the earning portion of a distribution. Earnings are calculated for each account separately.

For more information regarding the tax implications on income, gift and generation-skipping taxes with regard to 529 plans, please contact your Anchin Relationship Partner or Richard H. Stieglitz, Partner in Anchin's Tax Credits and Incentives Group, at 212.840.3456.