CPA Client Bulletin

Smart Tax, Business & Planning Ideas *from your* Trusted Business Advisor[sm]

August 2013

Citation and Resource Guide

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Make Student Loans Less Taxing

- The AICPA's summary of its survey on the effects of student loans can be found at **www.aicpa.org/Press/PressReleases/2013/Pages/AICPA-Survey-Reveals-Effects-Regrets-Student-Loan-Debt.aspx.**

Cashing In on Foreign Stocks

- The IRS explains the choice between claiming a deduction or a credit for foreign taxes paid at **www.irs.gov/Individuals/International-Taxpayers/Foreign-Tax-Credit---Choosing-To-Take-Credit-or-Deduction.**

Employers' Health Insurance Penalties Are Delayed

- A report from the Congressional Research Service on potential employer penalties under the Patient Protection and Affordable Care Act (ACA) can be found at **http://assets.opencrs.com/rpts/R41159_20130403.pdf.**

Practice Development Tip

Bring Clients Up to Speed on College Loans

During this back-to-school time of year, many clients will become increasingly concerned about paying for children's college education. Consequently, this is an excellent time to suggest education planning meetings with parents of teenagers.

At such a meeting, you might raise the topic of federal PLUS loans. Parents can borrow up to the full cost of college, minus any financial aid package.

If a child is going to a college that costs $40,000, for instance, and receives $12,000 in financial aid, that child's parents can borrow up to $28,000 with a PLUS loan from the federal government. PLUS loans have a fixed interest rate of 7.9%.

There is a credit check for PLUS loans, but that credit check is not as demanding as it is for some other types of loans. Nevertheless, any client who has lost a home in a foreclosure or has been extremely late with another loan payment may be rejected.

In today's environment, a 7.9% interest rate on a PLUS loan, along with a 3% origination fee, may not be all that desirable, especially for creditworthy clients. As an alternative, parents might choose to use a home equity line of credit (HELOC) for higher education expenses.

As of this writing, Bankrate.com puts the average interest rate on a HELOC under 5%. Moreover, your clients are more likely to be able to deduct the interest on a HELOC than the interest on a PLUS loan.

At these meetings, you also can discuss whether clients should have their children be responsible for taking on some debt. Students probably can get federal Stafford loans, where the limits range from $5,500 to $7,500 per undergraduate year. Some observers believe that students who have some "skin in the game" may take their education more seriously than those whose parents pay all the bills.

Students who take out the maximum Stafford loan each year will borrow $27,000 over 4 years. With a 6.8% interest rate and a 10-year repayment plan, monthly payments might be around $300 a month.

Assuming the student can get a decent job after college, that amount should be a bearable expense. Moreover, recent college graduates may have the requisite income to deduct the interest payments, as explained in this month's ***CPA Client Bulletin***.

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