

BOURGEOIS BENNETT CPAs & CONSULTANTS

NEW TAX DEDUCTION FOR SCHOOL TUITION AND EXPENSE

As Dorothy said in *The Wizard of Oz*, "There's no place like home." Most of us Louisianans either were born here and do not want to leave or moved here and want to stay. Louisiana is a great state with a lot to offer and recently taxpayers were given another incentive to "stay home."

In 2008, the Louisiana Legislature enacted a school tuition tax break. Act 8 of the Second Extraordinary Session of the 2008 Louisiana Legislature provides for a deduction to reduce Louisiana taxable income by qualifying tuition costs. According to the act, "Tuition costs include tuition and fees required for a student's enrollment in a non-public elementary or secondary school, or to any public elementary or secondary laboratory school which is operated by a public college or university."

To help summarize some of the facts of the legislation, here are some answers to frequently asked questions regarding the new deduction:

- **What grade levels does this include?**

The allowable tax deduction is for elementary and secondary school tuition.

- **What is considered tuition?**

Tuition is defined in Act 8 to include the following:

- Tuition payments made to a school for a child's education
- Purchases of school uniforms required by schools for daily use
- Purchase of textbooks, curricula and other instructional media required by schools
- Purchase of school supplies required by schools

- **Must the child be my dependent for me to claim the deduction?**

As enacted, the law allows anyone who pays qualifying tuition to claim the deduction. However, legislation currently being considered by the Louisiana Legislature would require the child to be a dependent of the taxpayer.

- **What tax year is the deduction allowable on my tax return?**

Under the law as enacted, the deduction is allowable in the tax year the tuition is *paid* or *incurred*. However, proposed legislation currently being considered by the Legislature would require actual payment of the tuition. *Paid* would be defined as cash or check being transferred from the taxpayer to the school or business for qualifying expenses. Installment payments made to the school directly are likely deductible when the payment is made to the school. Until further guidance is available, taxpayers are encouraged to save all receipts and evidence of any type of transaction.

- **Can I deduct the same amount on my Federal tax return?**

No. This deduction is limited to your Louisiana income tax return.

- **How do I calculate my deduction amount?**

The deduction is limited to the lesser of 50% of the tuition (as defined above) paid by the taxpayer per child and is limited to \$5,000 per child. The deduction is also limited to the taxable income of the individual. The deduction cannot create a loss on the taxpayers' tax return.

- **Does my deduction get phased out if I am a high tax bracket taxpayer?**

No.



Bourgeois Bennett

Certified Public Accountants | Consultants
A Limited Liability Company

111 VETERANS BLVD.
17TH FLOOR
METAIRIE, LA 70005
504.831.4949

1340 W. TUNNEL BLVD.
SUITE 226
HOUMA, LA 70360
985.868.0139

507-D ST. PHILIP ST.
THIBODAUX, LA 70301
985.447.5243

www.bourgeoisbennett.com

Laurie Carriere, CPA
Manager
lauriec@bb-cpa.com

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- **When do I get the benefit?**

“According to the law, this tax deduction does not go into effect until the 2009 tax year,” says Secretary of Revenue Cynthia Bridges. “The Act grants an individual income tax deduction for tuition, fees, and certain educational supplies and expenses paid on or after January 1, 2009. We encourage taxpayers to keep all related receipts so they can claim the deduction on their 2009 tax returns, which are due May 17, 2010.”

- **Does this lower my tax due to the State of Louisiana?**

This provision is a deduction, not a credit. How much your tax will be reduced depends upon your marginal tax rate. Here are some examples:

Example 1: If a taxpayer with two children enrolled in a private school pays \$12,000 for each child’s tuition, the taxpayer can deduct 50 percent of the \$12,000 limited to \$5,000 per student for a total tax deduction of \$10,000 for both students. The tax deduction can be deducted from the parent’s state taxable income when filing their 2009 tax return due May 17, 2010, if these tuition payments were paid or incurred in the 2009 calendar tax year. If the parents’ marginal tax rate was 4%, he or she would save \$400 in state income tax.

Example 2: If a taxpayer with three children enrolled in private school pays \$4,000 for two of the children and \$8,000 for the third child’s tuition, the taxpayer can deduct 50 percent of the first two children’s tuition for \$2,000 each and \$4,000 for the third, thus, giving the taxpayer a total tax deduction of \$8,000 for all three students. The tax deduction can be deducted from the parent’s state taxable income when filing his or her 2009 tax return due May 17, 2010, if these tuition payments were paid or incurred in the 2009 calendar tax year.

- **Would other expenses include the cost for purchasing a computer?**

The Code provision refers to “the purchase of school supplies *required by schools*”. It seems unlikely that a computer would fall under this rule; however, there has been no definitive response from the State on this yet.

As with any new legislation, additional questions and the need for supplementary definitions and clarifications become inevitable. Since this is a new area with little guidance from the Louisiana Department of Revenue, we encourage you to save all of your receipts and information associated with your expenses until there is more authoritative guidance. These receipts will be helpful and necessary to accurately complete your 2009 tax returns due to the State of Louisiana May 17, 2010.

Disclaimer: This written advice is not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties. This newsletter is written by our Accounting and Auditing Manager, Laurie Carriere, CPA to give you a brief overview of pertinent topics. You should obtain professional advice before making financial or tax decisions.



Laurie C. Carriere, CPA is an Audit Manager. Her areas of specialization include the engineering, construction and personnel placement industries. She also has expertise in not for profit, educational institution and worker’s compensation insurance accounting.

Laurie earned her Bachelor of Science degree in Accounting with a minor in Management from the University of New Orleans in 1998 and joined the firm in 1999. She is a member of the Society of Louisiana CPAs and has served on its New CPA Committee as well as Business and Industry Committee.

Laurie is Vice President of the St. Catherine of Siena School Board. She is Treasurer of the Holy Cross High School Board of Directors and chairs its Business Affairs Committee. She also sits on the Board of Directors of the Chateau Estates Lakefront Association.