

Education: 529 Plans, Bonds, and Business Deductions

Complete your education tax toolkit with this course covering Qualified Tuition Programs (529 plans), the IRA early withdrawal exception for education expenses, the Education Savings Bond Program, employer-provided educational assistance, and business deductions for work-related education. You'll explore contribution limits, taxable distribution rules, bond exclusion calculations, and deductible employee education expenses — giving you the depth needed to confidently handle the full spectrum of education-related tax situations your clients bring to the table.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recognize the tax benefits available through the use of a qualified tuition program.
- Recognize how early distributions from an IRA can be exempt from the 10% early withdrawal penalty when used for education.
- Identify who can cash in bonds tax free when used for education.
- Recall how employer-provided educational assistance plans work and their benefits.
- Identify what work-related education expenses may be able to be deducted as a business expense.

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Chapter 1: QUALIFIED TUITION PROGRAM (QTP)

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the tax benefits available through the use of a qualified tuition program.

I. REMINDER

Rollover to Roth IRA. For certain distributions made after December 31, 2023, you can roll over limited amounts from long-term QTPs to Roth IRAs.

II. INTRODUCTION

Qualified tuition programs (QTPs) are also called “529 plans.”

States may establish and maintain programs that allow you to either prepay or contribute to an account for paying a student’s qualified education expenses at a postsecondary institution. Eligible educational institutions may establish and maintain programs that allow you to prepay a student’s qualified education expenses.

If you prepay tuition, the student (designated beneficiary) will be entitled to a waiver or a payment of qualified education expenses.

You cannot deduct either payments or contributions to a QTP. For information on a specific QTP, you will need to contact the state agency or eligible educational institution that established and maintains it.

What is the tax benefit of a QTP. No tax is due on a distribution from a QTP unless the amount distributed is greater than the beneficiary’s adjusted qualified education expenses (AQEE). See *Are Distributions Taxable*, later, for more information.

Note

Even if a QTP is used to finance a student’s education, the student or the student’s parents still may be eligible to claim the American opportunity credit or the lifetime learning credit.

III. WHAT IS A QUALIFIED TUITION PROGRAM

A qualified tuition program is a program set up to allow you to either prepay, or contribute to an account established for paying, a student's qualified education expenses at an eligible educational institution. QTPs can be established and maintained by states (or agencies or instrumentalities of a state) and eligible educational institutions. The program must meet certain requirements. Your state government or the eligible educational institution in which you are interested can tell you whether or not they participate in a QTP.

QUALIFIED EDUCATION EXPENSES

Generally, these are expenses required for the enrollment or attendance of the designated beneficiary at an eligible educational institution. For purposes of QTPs, the expenses can be either qualified higher education expenses, or for qualified elementary and secondary education expenses, or for post secondary credential expenses. **Designated beneficiary.**

Designated beneficiary. The designated beneficiary is generally the student (or future student) for whom the QTP is intended to provide benefits. The designated beneficiary can be changed after participation in the QTP begins. If a state or local government or certain tax-exempt organizations purchase an interest in a QTP as part of a scholarship program, the designated beneficiary is the person who receives the interest as a scholarship.

Eligible Educational Institution

For purposes of a QTP, an eligible educational institution can be either an eligible postsecondary school, or an eligible elementary or secondary school.

Eligible postsecondary school. An eligible postsecondary school is generally any accredited public, nonprofit, or proprietary (privately owned profit-making) college, university, vocational school, or other postsecondary educational institution. Also, the institution must be eligible to participate in a student aid program administered by the U.S. Department of Education. Virtually all accredited postsecondary institutions meet this definition. The educational institution should be able to tell you if it's an eligible educational institution.

An eligible educational institution also includes certain educational institutions located outside the United States that are eligible to participate in a student aid program administered by the U.S. Department of Education.

Eligible elementary or secondary school. An eligible elementary or secondary school is any public, private, or religious school that provides elementary or secondary education (kindergarten through grade 12), as determined under state law.

Qualified Higher Education Expenses

These are expenses related to enrollment or attendance at an eligible postsecondary school. As shown in the following list, to be qualified, some of the expenses must be required by the school and some must be incurred by students who are enrolled at least half-time, defined later.

1. The following expenses must be required for enrollment or attendance of a designated beneficiary at an eligible postsecondary school.
 - a) Tuition and fees.
 - b) Books, supplies, and equipment.
2. Expenses for special needs services needed by a special needs beneficiary must be incurred in connection with enrollment or attendance at an eligible post-secondary school.
3. Expenses for room and board must be incurred by students who are enrolled at least half-time (defined below).

The expense for room and board qualifies only to the extent that it isn't more than the greater of the following two amounts.

- a) The allowance for room and board, as determined by the school, that was included in the cost of attendance (for federal financial aid purposes) for a particular academic period and living arrangement of the student.
- b) The actual amount charged if the student is residing in housing owned or operated by the school.

You may need to contact the eligible educational institution for qualified room and board costs.

4. The purchase of computer or peripheral equipment, computer software, or Internet access and related services if it is to be used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible postsecondary school. (This does not include expenses for computer software for sports, games, or hobbies unless the software is predominantly educational in nature.)
5. The expenses for fees, books, supplies, and equipment required for the designated beneficiary's participation in an apprenticeship program registered and certified with the Secretary of Labor under section 1 of the National Apprenticeship Act.
6. No more than \$10,000 paid as principal or interest on qualified student loans of the designated beneficiary or the designated beneficiary's sibling. A sibling includes a brother, sister, stepbrother, or stepsister. For purposes of the \$10,000 limitation, amounts treated as a qualified higher education expense for the loans of a sibling are taken into account for the sibling and not for the designated beneficiary. You cannot deduct as interest on a student loan (see Chapter 2 of course 33852E) any amount paid from a distribution of earnings from a QTP

after 2018 to the extent the earnings are treated as tax free because they were used to pay student loan interest.

Half-time student. A student is enrolled “at least half-time” if he or she is enrolled for at least half the full-time academic work load for the course of study the student is pursuing, as determined under the standards of the school where the student is enrolled.

Qualified Elementary and Secondary Education Expenses

These are expenses for no more than \$10,000 of tuition, incurred by a designated beneficiary, in connection with enrollment or attendance at an eligible elementary or secondary school.

1. Tuition.
2. Curriculum and curricular materials.
3. Books or other instructions materials.
4. Online educations materials
5. Tuition for tutoring or educations classes outside of the home, including at a tutoring facility, but only if the tutor or instructor is not related to the student, and
 - a) is licensed as a teacher in any state
 - b) has taught at an eligible education institution, or
 - c) is a subject matter expert in the relevant subject.
6. Fees for nationally standardized norm-referenced achievement test, an advance placement examination, or any examinations related to college or university admission.
7. Fees for dual enrollment in an institution of higher education.
8. Educational therapies for students with disabilities provided by a licensed or accredited practitioner or provider, including occupations, behavioral, physical, and speech-language therapies.

These are expenses for no more than \$10,000 of tuition, incurred by a designated beneficiary, in connection with enrollment or attendance at or for students enrolled at or attending an eligible elementary or secondary school.

Qualified Postsecondary Credentialing Expenses

These are expenses related to the enrollment or attendance of a designated beneficiary in a recognized postsecondary credential program.

1. The following expenses must be required for enrollment or attendance of a designated beneficiary in a recognized postsecondary credential program, or any other expense incurred in connection with enrollment in or attendance at an eligible education institution (defined under *Eligible Education Institution*, earlier).
 - a) Tuition and fees.

- b) Books, supplies, and equipment.
 - c) Expenses related to enrollment or attendance at an eligible education institution.
2. Fees for testing if the testing is required to obtain or maintain a recognized postsecondary credential.
 3. Fees for continuing education if the education is required to maintain a recognized postsecondary credential.

Recognized postsecondary credential program. A recognized postsecondary credential program is any program to obtain a recognized postsecondary credential if it meets the following:

1. The program is included on a State list prepared under section 122(d) of the Workforce Innovation and Opportunity Act.
2. The program is listed in the public directory of the Web Enabled Approval Management System (WEAMS) of the Veterans Benefits Administration.
3. The examination (developed or administered by an organization widely recognized as providing reputable credentials in the occupation) is required to obtain or maintain the credential and the organization recognizes the program as providing training or education which prepares individuals to take the examination; or
4. The program is identified by the Secretary of Treasury as being a reputable program for obtaining a recognized postsecondary credential.

Recognized postsecondary credential. A recognized postsecondary credential is:

1. A postsecondary employment credential that is industry recognized and is
 - a) Any postsecondary employment credential issued by a program that is accredited by the Institute for Credentialing Excellence, the National Commission on Certifying Agencies, or the American National Standards Institute,
 - b) Any postsecondary employment credential that is included in the Credentialing Opportunities On-Line (COOL) directory of credentialing programs maintained by the Department of Defense or by any branch of the Armed Forces, or
 - c) Any postsecondary employment credential identified by the Secretary of Treasury as being industry recognized.
2. Any certificate of completion of an apprenticeship that is registered and certified by the Secretary of Labor under the National Apprenticeship Act,
3. Any occupational or professional license issued or recognized by a State or the Federal Government, and any certification that satisfies a condition for obtaining the license, and
4. Any recognized postsecondary credential as defined in section 3(52) of the Workforce Innovation and Opportunity Act provided through a program described in paragraph (2) (A).