



## 2019.20 Training

*Subject: Education Credits & Deductions | Talking Points*

# *Table Of Contents*

[Education Tax Deductions & Credits Overview](#)

[Coverdell Education Savings Account \(ESA\)](#)

[Education Expenses – Tuition Payment Verification](#)

[Educator Expenses – Deductions](#)

[Employer-Provided Educational Expenses](#)

[Lifetime Learning Credit](#)

[Qualified Tuition Program](#)

[Student Loan Interest](#)

[Tuition and Fee Deductions](#)

[Are Scholarships and Grants Taxable?](#)

[Is my scholarship taxable income?](#)

[What are qualified education expenses?](#)

[What are taxable expenses?](#)

[Are grants taxable?](#)

# *Table Of Contents*

[Are fellowships taxable?](#)

[What is a Coverdell Education Savings Account \(ESA\)?](#)

[Coverdell ESA vs. 529 Plan: how they differ](#)

[Are there any income limits for Coverdell ESAs?](#)

[Where can I open a Coverdell ESA?](#)

[How can I withdraw money from a Coverdell ESA?](#)

[Are Coverdell ESA contributions and distributions tax-deductible?](#)

[Can Coverdell ESAs be transferred or rolled over?](#)

[Section 529 Plans \(Qualified Tuition Programs\)](#)

[What is a Section 529 Plan?](#)

[What expenses can Section 529 Plans be used for?](#)

[Who can contribute to a 529 plan?](#)

[What are annual contribution limits for a Section 529 Plan?](#)

[How does a Section 529 Plan differ from a Coverdell Education Savings Account?](#)

[How did 529s change after tax reform?](#)



## 2019.20 Training

***Subject: Education Credits & Deductions | Talking Points***

***What are some credits and deductions students and those with student dependents can take advantage of, especially after-tax reform?***

### **Education Tax Deductions & Credits Overview**

As a parent, a guardian of a school-age dependent, a student in K-12 or in college, an adult continuing their education, or a teacher, if you're involved in the education system in any way, it pays to understand how the tax code might affect your academic career. Here are several credits and deductions you might be able to take advantage of if you're a student, parent, guardian, or teacher.

### **Coverdell Education Savings Account (ESA)**

You can set up a Coverdell Education Savings Account for a child under the age of 18 if your modified Adjusted Gross Income (AGI) is less than \$110,000 as an individual, or less than \$220,000 for married couples filing a joint return. Anyone, including the child, can contribute to the account during the year. The maximum contribution is \$2,000 per beneficiary. Withdrawals will be tax-free when used to pay the beneficiary's qualified education costs for elementary, secondary, college, or graduate school.

### **Education Expenses – Tuition Payment Verification**

Generally, students will get a Form 1098-T, *Tuition Statement*, which reports the amount of tuition and required fees paid for/by the student to attend school. The form includes any scholarships or grants received, whether the student is a half-time or graduate student, and if any of the payments were for January through March 2019. Students challenged by the IRS to

prove education expenses will need more than the 1098-T issued by their college or university. Receipts from the school showing the amounts paid for tuition and fees can help with verification. Canceled checks or bank statements are also good records. If payments included amounts for charges other than tuition and fees, you should save a copy of billing documents from the school that break down the charges individually.

### **Educator Expenses – Deductions**

If you are an elementary or secondary school teacher, instructor, counselor, principal, or aide and you have worked at least 900 hours during a school year, you may deduct up to \$250 of the cost of books, supplies, computer equipment (including software and services), and other materials used in the classroom. These expenses can be deducted directly against your income without itemizing deductions. Remaining expenses can be deducted as a miscellaneous itemized deduction on Schedule A, subject to the 2% of AGI limit. Each qualified taxpayer may deduct up to \$250 in expenses on a joint return.

### **Employer-Provided Educational Expenses**

This benefit was rescinded under tax reform and is not currently available.

### **Lifetime Learning Credit**

If you paid expenses related to college, graduate or vocational school you may be able to claim the Lifetime Learning Credit. This is a non-refundable credit of up to \$2,000 of qualified tuition, fees, and expenses you paid for yourself, spouse, or a dependent. You do not have to be in a degree program, a full-time student, or in the first four years of post-secondary education; your modified AGI cannot be more than \$67,000 for singles or \$134,000 for married couples filing a joint return.

### **Qualified Tuition Program**

A Qualified Tuition Program (QTP), also referred to as a 529 plan, allows you to prepay a student's college tuition or contribute to a higher education savings account. Contributions are not tax-deductible, but distributions will be tax-free if the distributions are used to pay for qualified higher education expenses.

### **Student Loan Interest**

You may be able to claim a deduction of up to \$2,500 for interest paid on a qualified student loan. Only the amount of interest actually paid during the year may be deducted. You cannot

claim the deduction in any tax year in which another taxpayer claims you as a dependent. You do not need to itemize to claim this interest. This amount is subject to a phase-out, on Modified Adjusted Gross Incomes (MAGI) above \$80,000 and \$165,000 for married couples filing joint returns.

### **Tuition and Fee Deductions**

The tuition and fees deduction expired December 31, 2017 and was not extended for 2018 or beyond.

### **Are Scholarships and Grants Taxable?**

If you've received a scholarship, grant, or fellowship, congratulations! Here's how these sources of income will affect your taxes.

### **Is my scholarship taxable income?**

A scholarship is tax-free only if:

- You are a candidate for a degree at an eligible educational institution
- You use the scholarship to pay qualified educational expenses

### **What are qualified education expenses?**

To remain tax-free, the income from scholarships must be used for these qualified education expenses:

- Tuition and fees required to enroll at or attend an eligible educational institution
- Course-related expenses, such as fees, books, supplies and equipment that are required for the courses at the eligible educational institution
- These items must be required of all students in your course of instruction

### **What are taxable expenses?**

The fellowship stipend that is for your room and board, childcare, or transportation expenses are generally taxable. Any amounts paid for you to work, such as student teaching, are also considered taxable. Finally, any amounts leftover after covering tuition, fees, books, supplies, and equipment required for the program are taxable.

### **Are grants taxable?**

A grant is tax-free only if:

- You are a candidate for a degree at an eligible educational institution, and
- You use the grant to pay qualified educational expenses, and
- The grant isn't payment for time spent researching, testing, teaching, etc.

### **Are fellowships taxable?**

A fellowship is tax-free only if:

- You are a candidate for a degree at an eligible educational institution, and
- You use the money awarded to pay qualified educational expenses, and
- The fellowship isn't payment for time spent researching, testing, teaching, et

A Coverdell Education Savings Account can be a great way to save money on school expenses. Here's how to set one up, as well as the rules and benefits.

### **What is a Coverdell Education Savings Account (ESA)?**

A Coverdell ESA is an investment account for students. Money in a Coverdell ESA can be used to cover future education costs, whether related to primary and secondary education or college and university. Contributions are not tax-deductible, but distributions from the account are tax-free if they don't amount to more than the beneficiary's adjusted qualified education expenses for the year. Any individual (including the child) can contribute to the account during the year if their income is below \$110,000, or \$220,000 if filing a joint return. Beneficiaries must be under age 30 to use the Coverdell funds with no tax consequence. If a beneficiary is reaching age 30, the funds can be rolled over to a new, younger relative.

### **Coverdell ESA vs. 529 Plan: how they differ**

Until the Tax Cuts and Jobs Act (TCJA or tax reform), was passed in late 2017, 529 Plans, or Quality Tuition Programs (QTPs) could only be used for post-K-12 education. Now, both QTPs and Coverdell accounts can be used for K-12 education, as well as college and university.

A major difference between a QTP account and a Coverdell account has to do with the age limit of these accounts' beneficiaries. Money from a Coverdell account must be used by the time the beneficiary is 30 years old. While the IRS has no age limit for beneficiaries of QTPs, most states do. For both types of plan, the account custodian can rollover funds to a new beneficiary tax-free. Under Tax Reform a QTP account can now be rolled over to an ABLÉ account for qualified disabled beneficiaries.

Coverdell accounts have a limited total annual contribution of \$2,000 per beneficiary. QTPs generally do not place a cap on annual contributions, however, contributions are capped at the amount of the education benefit. Also, an individual's income can affect the ability to contribute to a Coverdell account but not to QTPs.

### **Are there any income limits for Coverdell ESAs?**

Taxpayers can only contribute to a Coverdell when their income is less than \$110,000, or \$220,000 if filing a joint return.

### **Where can I open a Coverdell ESA?**

Any family member can open a Coverdell account at any bank, financial institution, or brokerage firm that handles such accounts. You will need proof of the beneficiary's birth, name, and Social Security number.

### **How can I withdraw money from a Coverdell ESA?**

You must complete a form at the institution that handles the Coverdell. The form asks for the name, address, and social security number of the beneficiary and custodian. Only the beneficiary, legal guardian (including a parent), or the custodian can withdraw money from the account.

### **Are Coverdell ESA contributions and distributions tax-deductible?**

Contributions to a Coverdell account are not tax-deductible. Earnings on the account are not taxable. The distributions from a Coverdell are tax-exempt as long as they are used to cover qualifying education expenses. Qualified expenses are the cost of attending a school or for a special needs beneficiary and include; tuition and fees, books, supplies, and required materials for a course of study.

## **Can Coverdell ESAs be transferred or rolled over?**

You can roll over the money in a Coverdell account to another Coverdell or another beneficiary.

## **Section 529 Plans (Qualified Tuition Programs)**

A Section 529 Plan (also known as a Qualified Tuition Program) is a great way to prepare for the financial burden of college expenses.

## **What is a Section 529 Plan?**

A Section 529 Plan, also known as a Qualified Tuition Program or QTP, allows you to prepay a student's college tuition or contribute to an education savings account. Contributions are not tax-deductible on federal returns, but distributions will be tax-free if they are used to pay for qualified education expenses for the plan beneficiary. Many states offer an additional tax break: Parents may deduct \$10,000 in 529 plan contributions per child, per year.

Beginning January 2018, distributions from the 529 plan can be used to pay up to \$10,000 per year of tuition for elementary or secondary public, private or religious schools. Homeschooling expenses are not eligible.

## **What expenses can Section 529 Plans be used for?**

There are two types of 529 plans, the prepaid tuition plan and the education savings plan. The prepaid tuition plan can only be used for tuition and required fees. This plan is generally sponsored by a state and locks in a child's tuition and fees for future attendance at a state school at today's prices.

The second program is the education savings plans. This plan can be used for:

- Tuition and fees
- Room and board – which normally includes housing and a food plan
- Graduate school
- Kindergarten through grade 12 tuition and fees up to \$10,000
- Computer, peripherals (such as monitors and printers), and internet access
- Books, lab equipment, and other necessary items for classes



### **Who can contribute to a 529 plan?**

- Grandparents
- Parents
- Other relatives
- Friends
- Even the beneficiary

### **What are annual contribution limits for a Section 529 Plan?**

The contribution amounts are limited to the amount needed to cover the qualified education expenses for the beneficiary. Gift tax exclusion limits are \$15,000 per donor for 2018 and 2019. If you contribute more than this you will have to file a gift tax return for the year.

### **How does a Section 529 Plan differ from a Coverdell Education Savings Account?**

A major difference between a 529 plan account and a Coverdell account has to do with the age limit of these accounts' beneficiaries. Money from a Coverdell account must be used by the time the beneficiary is 30 years old. There is no age limit for beneficiaries of 529s. In both cases, however, the account custodian can designate a new beneficiary without having to pay taxes.

Under tax reform, both a 529 plan and a Coverdell account can be used for K-12 education, as well as college and university.

Coverdell accounts have a limited total annual contribution of \$2,000 per child. States control the amount you can contribute to a 529 plan account, generally there is no cap on annual contributions. Donors should be careful of the annual Gift Tax Exclusion amount, which is \$15,000 for 2018 and 2019.

An individual can be a beneficiary of multiple Coverdell accounts, but only a total of \$2,000 can be contributed each year. An individual can be the beneficiary of multiple 529 plan accounts and only limits set by the state apply.

A Coverdell account is only available if the parent's or individual's annual income is below \$110,000 (\$220,000 if married filing jointly) where there is no income limit for contributing to a 529 plan.

### **How did 529s change after tax reform?**

The Section 529 Plan program has been expanded under the tax reform. Up to \$10,000 a year can be used from a 529 plan to pay K-12 tuition and expenses for public, private, and religious schools. Prior to tax reform, only Coverdell Savings Accounts (CSA) could be used for primary and secondary school education.

Any remaining amounts in a 529 plan can be rolled over to an ABLE account for the beneficiary or their qualifying relative.