Saving for College

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Custodial Accounts (UTMA/UGMA)

Assets in a custodial account belong to the minor. A custodian, usually an adult relative, controls the assets until the minor reaches the age set by state law (21 in most states).

Assets in a custodial account can be used to pay for education expenses for the minor.

Savings Bond Interest Exclusion

Exclusion Rules

Interest from qualified savings bonds redeemed by the taxpayer can be excluded from income if:

- The taxpayer paid qualified education expenses during the year for the taxpayer, spouse, or a dependent claimed on the taxpayer's return.
- Filing status is not Married Filing Separate.

If proceeds from the redemption (interest and principal) are more than adjusted qualified education expenses, only a percentage of the interest is excludable.

Example: *Marty redeemed qualified bonds for $10,000, including accrued interest of $5,500. He paid $8,000 of qualified education expenses during the year. His excludable interest is:*

$5,500 interest	×	$8,000 qualified expenses / $10,000 redemption proceeds	=	$4,400 tax-free interest

Income Limit

The exclusion is limited by adjusted gross income. Check with your tax preparer for income limitations.

Qualified Savings Bonds

- Series EE bonds issued after 1989 and Series I bonds.
- Issued to a person who was age 24 before the bond's issue date. The issue date is the first day of the month in which the bond was purchased (for example, a bond purchased on May 25 has a May 1 issue date). The issue date is printed on the front of the bond.
- Issued in the name of the taxpayer and/or spouse. There can be no other co-owners, including the taxpayer's child. The bond can have a pay-on-death (POD) beneficiary, including a child.

Qualified Tuition Plans (529 Plans) & Educational Savings Accounts (ESAs)

QTP and ESA Tax Benefits

Contributions to a QTP or ESA are not deductible. Earnings accumulate tax free. Distributions from an ESA are not taxable if less than the beneficiary's adjusted qualified education expenses in the year of distribution. Contributors can contribute to both a QTP and an ESA in the same year for the same designated beneficiary.

Qualified Expenses

- Tuition, fees, books, supplies, and equipment required for enrollment or attendance of the designated beneficiary at an eligible institution. Qualified expenses do not include courses involving sports, games, or hobbies, unless part of the student's degree program.
- Expenses for special needs services of a beneficiary with special needs incurred in connection with enrollment or attendance.

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- Room and board for students enrolled at least half time in a degree or certificate program. Expenses are limited to the room and board allowance included in the cost of attendance set by the school for financial aid purposes or the actual cost of campus housing, if greater.

➲ ***Did You Know?*** Most colleges and universities set room and board allowances for students who live on campus, off campus, and with parents. Check the school's financial aid website for costs of attendance.

For ESAs, the following additional expenses are allowed.

- Expenses for enrollment or attendance at any public, private, or religious school that provides K–12 education as determined under state law.
  - Tuition, fees, books, supplies and equipment, academic tutoring, special needs services.
  - Room and board, uniforms, transportation, supplementary items and services, including extended day programs if required or provided by the school.
- Purchase of computer technology, equipment, or internet access and related services to be used by the beneficiary and family during elementary or secondary school years. Does not include computer software unless predominantly educational.
- Contributions to QTPs for the designated beneficiary.

Adjustments

Qualified expenses are reduced by:

- Tax-free assistance (scholarships, fellowships, grants, employer-provided assistance, veterans benefits, and any other nontaxable payments except gifts or inheritances).
- Amounts used to figure an education credit.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

QTP and ESA Contributions

	Qualified Tuition Programs	*Coverdell Education Savings Accounts*
Description		
	• State plans that allow contributions to an account to pay expenses of a beneficiary. • State or educational institution plans that allow prepayment of qualified education expenses. Also called college savings plans and 529 plans.	Accounts similar to Roth IRAs used to pay qualified education expenses of a designated beneficiary.
Ownership		
	Any U.S. citizen or resident with a valid SSN, including the beneficiary. Owner and beneficiary do not need to be related.	Beneficiary or parent.
Age Limit		
	None.	No contributions once beneficiary is 18. Balance must be distributed at age 30. Age limits do not apply to beneficiaries with special needs.
Contribution Limits		
	No annual limit. Account balance limits are set by plan. Limits are over $200,000 for most state plans.	$2,000 per beneficiary.
Contributors		
	Any individual, including the beneficiary or entity. No income limits.	Any individual, including the beneficiary, subject to income limits. Any entity, such as a corporation or trust, not subject to income limits.
Deadline		
	None.	April 15, 2019 for 2018 contributions.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.