



BEE BERGVALL & Co.

Higher Education Tax Planning Strategies

September, 2024

There are several planning opportunities for funding higher education that can help maximize tax benefits and manage education expenses effectively. Speak with your tax planning professional to discuss the approach that is best for your family.

Utilize Section 529 Plans:

- **Tax-Free Growth and Distributions:** Contributions to a 529 plan grow tax-free, and distributions are tax-free if used for qualified education expenses, including tuition, fees, books, supplies, and equipment required for enrollment or attendance at an eligible educational institution.
- **K-12 Tuition:** Under the Tax Cuts and Jobs Act (TCJA), up to \$10,000 per year per beneficiary can be used for K-12 tuition expenses.
- **Student Loan Repayment:** The SECURE Act allows up to \$10,000 to be used from a 529 plan to repay student loans for the beneficiary and each of the beneficiary's siblings.
- **Rollover to Roth IRA:** Starting in 2024, long-term 529 plans can be rolled over to a Roth IRA for the beneficiary, subject to certain limitations.

Coordinate with Education Tax Credits:

- **American Opportunity Credit:** This credit provides up to \$2,500 per eligible student for the first 4 years of postsecondary education. It covers tuition, fees, and course materials.
- **Lifetime Learning Credit:** This credit offers up to \$2,000 per tax return for tuition and fees required for enrollment in eligible educational institutions. It is available for all years of postsecondary education and for courses to acquire or improve job skills.
- **Coordination Rules:** Expenses used to claim the American Opportunity Credit or Lifetime Learning Credit cannot be used to justify tax-free distributions from a 529 plan.

Coverdell Education Savings Accounts (ESAs):

- **Tax-Free Growth and Distributions:** Contributions to a Coverdell ESA grow tax-free, and distributions are tax-free if used for qualified education expenses, including elementary and secondary education expenses.
- **Contribution Limits:** The annual contribution limit is \$2,000 per beneficiary, and contributions are subject to income limits.

Education Savings Bond Program:

- **Tax-Free Interest:** Interest on Series EE and I bonds issued after 1989 can be excluded from income if used to pay for qualified education expenses.
- **Income Limits:** The exclusion is subject to income limits, and the amount of the exclusion is phased out for higher-income taxpayers.

Employer-Provided Educational Assistance:

- **Tax-Free Benefits:** Up to \$5,250 per year of employer-provided educational assistance can be excluded from income. This includes tuition, fees, books, supplies, and equipment.

Student Loan Interest Deduction:

- **Deductible Interest:** Up to \$2,500 of interest paid on qualified student loans can be deducted from income, subject to income limits.

IRA Withdrawals for Education:

- **Penalty-Free Withdrawals:** Early withdrawals from IRAs can be made penalty-free if used for qualified higher education expenses, though the withdrawals are still subject to income tax.

Tax Planning for Dependent Students:

- **Support Test:** To claim a student as a dependent, parents must provide more than 50% of the student's total support, which includes education expenses.
- **Strategic Support:** Parents who cannot meet the support test every year should consider lumping support into fewer years to maximize tax benefits.

