

Saving for College

David Tucker CPA P.C.
12309 Limerick Ave
Austin, TX 78758
512-571-2849
979-488-9272 fax
E-mail: *David@Tucker.CPA*
Website: *Tucker.CPA*

Custodial Accounts (UTMA/UGMA)

Assets in a custodial account belong to the minor. Any income earned in a custodial account is taxed 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:*

$$\$5{,}500 \times \frac{\$8{,}000}{\$10{,}000} = \$4{,}400 \text{ tax-free interest}$$

Income Limit

The exclusion is reduced if income is $101,800 or more ($152,650 if married filing a joint return). No exclusion is allowed if your income is more than $116,800 ($182,650 if married filing a joint return).

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 printed on the front of the bond. 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).
- 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 (QTPs)

QTP Tax Benefits

Contributions to a QTP are not deductible on your federal return. Earnings accumulate tax free. Distributions are not taxable if less than the beneficiary's adjusted qualified education expenses in the year of distribution. Many states provide state income tax deductions or credits for residents who contribute to a QTP.

Note: QTPs are also called college savings plans or 529 plans.

Qualified Expenses

Higher education expenses. Higher education expenses for QTPs relate to enrollment or attendance at an eligible postsecondary school.

- Tuition, fees, books, supplies, and equipment required for enrollment or attendance of the designated beneficiary at an eligible institution or in a registered apprenticeship program. 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.
- Room and board for students enrolled at least half time in a degree or certificate program. Expenses are limited to



Saving for College

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.

Note: 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.

- The purchase of computer or peripheral equipment, computer software, or internet access and related services is a qualified expense. These items must be primarily used by the beneficiary during any of the years the beneficiary is enrolled at an eligible educational institution. The computer software must have a predominantly educational nature.
- Principal or interest payments on any qualified education loan of the beneficiary (or sibling) up to a cumulative maximum of $10,000 per beneficiary.
- Certain postsecondary credentialing expenses (such as continuing education).

K-12 education expenses. Qualified expenses include expenses for enrollment or attendance at an eligible elementary or secondary school. Qualified K-12 expenses cannot exceed $20,000 per beneficiary per year. Qualified expenses include certain supplies, materials, and other fees such as books, online educational materials, tutoring, educational therapies, and fees for nationally standardized achievement tests or college admissions/entrance exam.

QTP to Roth IRA rollover. Normally, QTP withdrawals for non-qualified uses face income taxes and penalties. However, a rollover option lets you move leftover 529 money into a Roth IRA without income limits and without incurring taxes or penalties if you meet the rules.

- Lifetime cap is $35,000.
- QTP must be 15 years old.
- Roth IRA annual contribution limits apply.
- Beneficiary and Roth IRA owner must match.

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 compute an education credit or deduction.

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.

Copyright © 2026 Tax Materials, Inc.
All Rights Reserved

Education Savings Accounts (ESAs)

ESA Tax Benefits

The same as QTPs, contributions to an ESA are not deductible on your federal return, earnings accumulate tax-free, and distributions are not taxable if less than the beneficiary's adjusted qualified education expenses in the year of the distribution.

Note: ESAs are also called Coverdell ESAs.

Similarities between ESAs and QTPs.

- Earnings grow tax-free and withdrawals are tax-free if used for qualified education expenses.
- Both can be used for college and K-12 education expenses.
- An adult account owner controls the funds for the benefit of the student beneficiary.
- Funds can be transferred to another eligible family member of the beneficiary.
- Both are considered parental assets (if owned by a parent), which generally has a modest effect on financial aid eligibility.

Differences between ESAs and QTPs.

Feature	Qualified Tuition Programs	Education Savings Accounts
Contribution Limits	None	$2,000/beneficiary
Income Limit	None	Yes – phase out begins at $110,000 for individuals ($220,000 MFJ)
Qualified Expenses	*Primarily college* – up to $20,000 K-12, apprenticeships, and student loan repayment	*Broader* – no limit on K-12, includes tutoring and uniforms
Age Restrictions	None	Must be used or rolled over by age 30 (except for special needs beneficiaries)
State Benefits	Many states offer tax deductions and credits for contributions	None

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 73.
- 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.