Filing Guide

IRS Publication 970:
Tax Benefits for Higher Education

Tax Savers

Section 529 plans offer both income-tax breaks as well as estate-tax breaks:

- Contributions are considered complete gifts for gift tax purposes.
- You can contribute up to $18,000 per year per student, or $36,000 jointly with your spouse (2024), with no gift tax effect.
- You can give a beneficiary up to $108,000 in a single year, or $216,000 jointly with your spouse (2024), so long as you give no more for the next four years.
- Plan assets aren't included in your taxable estate unless you "front-load" contributions in a single year then die before the end of that period.

Tax Savers

If you lose money in a 529 plan, you can close your account and deduct the loss as a miscellaneous itemized deduction. You can transfer accounts from one plan to another, but not more than once per year.

Tax Savers

If you're saving for college and you own permanent life insurance, you can stuff savings into your policy and take tax-free cash for college. If you later surrender the policy, any gains exceeding your total premiums are taxed as ordinary income when you surrender the policy.

Saving for college can be harder than saving for retirement. The clock starts ticking the day your child is born - and the closer college draws, the less risk you can take. Consider these tax-advantaged tools:

- **Coverdell Education Savings Accounts** ("ESAs") let you save up to $2,000 per year per student. Earnings grow tax-deferred, and withdrawals are tax free for education costs.
- **Section 529 Plans** are state-sponsored college savings plans. Each state sets its own lifetime contribution limit, which ranges between $235,000 and $520,000. Traditional "prepaid tuition" plans cover specific units of tuition such as a credit hour or course. Newer "college savings" plans invest contributions in mutual funds for potentially higher growth, generally adjusting portfolios from stocks to bonds and cash as your child ages. You can choose any state's plan; however, some states offer deductions for contributions to their own plans. Beginning in 2024, you can roll up to $35,000 of unused funds in a 529 account into a Roth IRA in the student's name. (The account must have been open for at least 15 years, and rollovers are subject to regular annual Roth contribution limits.)
- **U.S. Savings Bonds** let you defer tax on gains until you redeem the bond. Interest on Series EE Savings Bonds issued after 1989 to individuals age 24 or above may be tax-free if you use it the year you redeem the bond for "qualified educational costs" (tuition and fees minus tax-free scholarships, qualified state tuition plan benefits, and federal education tax credits). However, these bonds pay minimal interest, and the tax exclusion begins phasing out at modest AGIs starting just over $80,000.

Plan	Coverdell ESA	Section 529 Plan
Donor AGI Limit	$110,000 ($220,000 joint)	None
Contribution Limit	$2,000 per year	Varies by state
Federal Deduction	None	None
State Deduction	None	Some
Withdrawals	Tax-free for elementary, secondary, and college costs, including reasonable room and board. Expenses paid out of ESA accounts do not qualify for American Opportunity or Lifetime Learning credits. Withdrawals not used for education are taxed as ordinary income.	Tax-free for "qualified higher education expenses." Withdrawals not used for college are taxable only if they exceed contributions.
Age Limit	Use by age 30. Otherwise, pay tax on gains or roll into a family member's ESA.	Designate new beneficiary if child chooses not to attend college.