2020 · IS THE DISTRIBUTION FROM MY 529 PLAN TAXABLE?

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Allos™ Investment Advisors

Start Here

Do you have Qualified Education Expenses (QEE) this year?

- Yes → Step 1: Add up all Qualified Education Expenses for the year ($10k limit on elementary and secondary school expenses).
- No → Did the beneficiary pass away, become terminally ill or have a long-term disability?
  - No. Sorry, the gains from any distribution will be taxed as ordinary income, plus a 10% penalty.
  - Passed away or terminally ill. The gains are taxed as ordinary income, but no penalty.
  - Disabled. Up to $15k/year can be rolled over to a 529A ABLE account without penalty.
- Not sure. Look below to see if the expense qualifies.
  - Tuition and fees. This is a qualified expense for higher education, and up to $10k/year for elementary/ secondary school.
  - Room and board. This is a qualified expense, if enrolled half-time or more and the cost does not exceed the budgeted amount set by the school.
  - Books and supplies (i.e. a computer). This is a qualified expense, if the cost does not exceed the budgeted amount set by the school.
  - Apprenticeship programs. Includes fees, books and supplies, and required equipment. This is a qualified expense if the program is registered with the DOL.
  - Student loan repayment. Up to $10k lifetime limit per person. An additional $10k may be distributed to each of the beneficiary's siblings.

Step 1: Add up all Qualified Education Expenses for the year ($10k limit on elementary and secondary school expenses).

Step 2: Deduct tax-free educational assistance.

- This includes scholarships, grants, Veterans educational assistance, tax-free parts of Pell grants, employer-provided educational assistance, distributions from Coverdell Savings accounts.

Was the Lifetime Learning Tax Credit claimed?

- Yes → Reduce QEE by expenses for which credit was claimed (up to $10k).
- No → Was the American Opportunity Tax Credit claimed?
  - Yes → Reduce QEE by expenses for which credit was claimed (up to $4k).
  - No → Reduce QEE by expenses for which Tuition and Fees Deduction was claimed on your 1040 (up to $4k).

You have arrived at Adjusted Qualified Education Expense (AQEE).

Is the distribution from the 529 Plan less than or equal to the AQEE?

- Yes → The distribution from the 529 Plan is tax-free.
- No → Sorry, a portion of the distribution from the 529 Plan is taxed as ordinary income.

Portion of distribution taxable as ordinary income equals:
529 Plan earnings - (529 Plan earnings x [AQEE / 529 Plan Distribution]).

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