



Education Expenses Part 2

Course #3152B

Taxes

2 Credit Hours

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EDUCATION EXPENSES PART 2

This course covers the various types of tax benefits and savings opportunities available for education. The topics covered here included: tax deductions for tuition and fees, Coverdell ESAs, qualified tuition programs, early distributions from IRAs, tax free bonds, employer-provided educational assistance plans, and business deduction for work-related education.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

Tuition and Fees Deduction
Coverdell Education Savings Account (ESA)
Qualified Tuition Program (QTP)
Education Exception to Additional Tax on Early IRA Distributions
Education Savings Bond Program
Employer-Provided Educational Assistance
Business Deduction for Work-Related Education

Study the course materials from pages 1 to 87

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Identify what tax deductions are available for tuition and fees
- Recognize how a Coverdell ESA can be used as a tax benefit for education.
- Recognize the tax benefits available through the use of a qualified tuition program.
- Recognize how early distributions from an IRA can be exempt from the 10% early withdrawal penalty when used for education.
- Identify who can cash in bonds tax free when used for education.
- Recall how employer-provided educational assistance plans work and their benefits.
- Identify what work-related education expenses may be able to be deducted as a business expense

NOTICE

This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

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EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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CHAPTER 1: TUITION AND FEES DEDUCTION

Chapter Objective

After completing this chapter, you should be able to:

- Identify what tax deductions are available for tuition and fees.

I. WHAT'S NEW FOR 2021

Tuition and fees deduction. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 repealed the tuition and fees deduction for tax years beginning after 2020. Income limitations for the lifetime learning credit will be increased to help filers transition to the lifetime learning credit.

II. INTRODUCTION

You may be able to deduct qualified education expenses paid during the year for yourself, your spouse, or your dependent(s). You cannot claim this deduction if your filing status is married filing separately or if another person is entitled to claim you as a dependent on his or her tax return. The tuition and expenses must be for higher education, as explained later under *Qualified Education Expenses*.

What is the tax benefit of the tuition and fees deduction. The tuition and fees deduction can reduce the amount of your income subject to tax by up to \$4,000.

This deduction is claimed as an adjustment to income on Schedule 1 (Form 1040). This deduction may be beneficial to taxpayers who do not qualify for the American opportunity or lifetime learning credits.

Table 1-1 summarizes the features of the tuition and fees deduction.

TABLE 1-1. TUITION AND FEES DEDUCTION AT A GLANCE

Do not rely on this table alone. Refer to the text for complete details.

Question	Answer
What is the maximum benefit?	You can reduce your income subject to tax by up to \$4,000.
What is the limit on modified adjusted gross income (MAGI)?	\$160,000 if married filing a joint return; \$80,000 if single, head of household, or qualifying widow(er)
Where is the deduction taken?	As an adjustment to income on Schedule 1 (Form 1040).

Question	Answer
For whom must the expenses be paid?	A student enrolled in an eligible educational institution who is either: <ul style="list-style-type: none"> • you, • your spouse, or • your dependent.
What tuition and fees are deductible?	Tuition and fees required for enrollment or attendance at an eligible postsecondary educational institution, but not including personal, living, or family expenses, such as room and board.

Tip



You can choose the education benefit that will give you the lowest tax. You may want to compare the tuition and fees deduction to the education credits.

III. CAN YOU CLAIM THE DEDUCTION

The following rules will help you determine if you can take the tuition and fees deduction.

WHO CAN CLAIM THE DEDUCTION

Generally, you can claim the tuition and fees deduction if all three of the following requirements are met.

1. You pay qualified education expenses of higher education.
2. You pay the educational expenses for an eligible student.
3. The eligible student is yourself, your spouse, or your dependent you claim on your tax return.

The term “qualified education expenses” is defined later under *Qualified Education Expenses*. “Eligible students” is defined later under *Who Is an Eligible Student*. For more information on claiming the deduction for a dependent, see *Who Can Claim a Dependent’s Expenses*.

WHO CANNOT CLAIM THE DEDUCTION

You cannot take the tuition and fees deduction if any of the following apply.

- Your filing status is married filing separately.
- Another person is entitled to claim you as a dependent on his or her tax return. You cannot take the deduction even if the other person does not actually claim you as a dependent.

- Your modified adjusted gross income (MAGI) is more than \$80,000 (\$160,000 if filing a joint return).
- You (or your spouse) were a nonresident alien for any part of 2020 and the nonresident alien did not elect to be treated as a resident alien for tax purposes.

IV. WHAT EXPENSES QUALIFY

The tuition and fees deduction is based on qualified education expenses you pay for yourself, your spouse, or a dependent you claim on your tax return. Generally, the deduction is allowed for qualified education expenses paid in 2020 in connection with enrollment at an institution of higher education during 2020 or for an academic period beginning in 2020 or in the first 3 months of 2021.

For example, if you paid \$1,500 in December 2020 for qualified tuition for the spring 2021 semester beginning in January 2021, you may be able to use that \$1,500 in figuring your 2020 deduction.

Academic period. An academic period includes a semester, trimester, quarter, or other period of study (such as a summer school session) as reasonably determined by an educational institution.

Paid with borrowed funds. You can claim a tuition and fees deduction for qualified education expenses paid with the proceeds of a loan. Use the expenses to figure the deduction for the year in which the expenses are paid, not the year in which the loan is repaid. Treat loan disbursements sent directly to the educational institution as paid on the date the institution credits the student's account.

Student withdraws from class(es). You can claim a tuition and fees deduction for qualified education expenses not refunded when a student withdraws.

QUALIFIED EDUCATION EXPENSES

For purposes of the tuition and fees deduction, qualified education expenses are tuition and certain related expenses required for enrollment or attendance at an eligible educational institution.

Eligible educational institution. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education. It includes virtually all accredited, public, nonprofit, and proprietary (privately owned profit-making) postsecondary institutions. The educational institution should be able to tell you if it is an eligible educational institution.

Related expenses. Student-activity fees and expenses for course-related books, supplies, and equipment are included in qualified education expenses only if the fees and expenses must be paid to the institution as a condition of enrollment or attendance.

Prepaid expenses. Qualified education expenses paid in 2020 for an academic period that begins in the first three months of 2021 can be used in figuring an education credit for 2020 only. For example, you pay \$2,000 in December 2020 for qualified tuition for the 2021 winter quarter that begins in January 2021, you can use that \$2,000 in figuring an education credit for 2020 only (if you meet all the other requirements).