January 2, 2019

What's New Under TCJA for Education Expenses?

HIGHER EDUCATION, NOT-FOR-PROFIT, TAX, TAX REFORM, TCJA
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By now you know that the Tax Cuts and Jobs Act (TCJA) signed into legislation last December will have a major impact on your tax filings for the years 2018 through 2025. We at Schneider Downs are still working through each aspect as year-end tax projections are being completed for our clients. An area of attention for those of us with student dependents is what has changed under TCJA related to education expenses.

In October 2018, the IRS issued Publication 5307 to provide an overview of TCJA as it relates to individuals. This article focuses specifically on education expenses.

Tuition Assistance Programs, commonly referred to as Qualified Tuition Plans (QTP) or 529 Plans, are a savings vehicle many of us use for our childrens' higher education expenses. These plans were first developed in 1996 to allow taxpayers a tax-advantaged way to save for qualified higher education expenses for designated beneficiaries.

The TCJA legislation has expanded QTPs in two major ways:

- Distributions from a QTP made after December 22, 2017, and through December 31, 2025, will not be subject to income tax if the distribution is transferred to an ABLE account of the designated beneficiary or a member of the family of the designated beneficiary. ABLE accounts were also created under Internal Revenue Code Section 529 and are meant to be used as a savings vehicle for individuals with disabilities. These savings accounts do not interfere with governmental aid available to those individuals and are meant to be used for qualified costs like basic living expenses, assistive technology and transportation, etc. QTP rollovers to an ABLE account are limited to the annual ABLE contribution limit, which is tied to the annual gift tax exclusion amount ($15,000 for tax year 2018).
- The second way QTPs were expanded is that they are now able to be used for tuition expenses related to the beneficiary's enrollment in kindergarten through 12th grade at private or parochial schools. An annual limit of distributions for pre-college tuition is set at $10,000 per the TCJA. Previously, only higher education (post-secondary) costs were available to be funded with these tax-advantaged savings plans.

Education Credits and Deductions, specifically, the student loan interest deduction and Lifetime Learning Credit, have both been retained by the TCJA. Additionally, the American Opportunity Credit is still in place. Only the Tuition and Fees deduction has been allowed to expire as of the end of 2017. That was an "above the line" (before adjusted gross income) deduction related to tuition, fees and books/supplies. Over the last few years, it’s been resurrected with an extenders package, so this may happen again for 2018.

You may wish to review an article written last year that describes the types of expenses eligible for each of the tax benefit programs. The main update to that specific article is that, as of this writing, the Tuition and Fees Deduction is not available for 2018.

Education costs for our children is a maze, but, we are available to help you through it!

With the changes enacted by the Tax Cuts and Jobs Act, you may wish to discuss your questions related to this topic or any others with your Schneider Downs & Co. team. Please feel free to reach out with all questions as we are available to assist you.

You've heard our thoughts… We'd like to hear yours

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