TAX YEAR
2023

Saving for College

Sprague & Jackson

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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:*

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

Income Limit

The exclusion is limited by adjusted gross income. Check with your tax professional for income limitations.

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. 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). The issue date is printed on the front of the bond.
- 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) & Educational Savings Accounts (ESAs)

QTP and ESA Tax Benefits

Contributions to a QTP or ESA 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. Contributors can contribute to both a QTP and an ESA in the same year for the same designated beneficiary.

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

Qualified Expenses

Higher education expenses. Higher education expenses for both QTPs and ESAs 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. 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 the room and board allowance included in the cost of