

About Qualified Tuition Programs and Form 1099-Q

A qualified tuition program (QTP) can be a state-sponsored section 529 plan or a Coverdell education savings account (Coverdell ESA). These programs allow the account owner to prepay or contribute to an account for paying a beneficiary's qualified higher education expenses at an eligible educational institution.

An eligible educational institution is generally any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education.

When the beneficiary enrolls in school and starts taking distributions to pay school expenses, they will begin receiving **Form 1099-Q**, *Payments From Qualified Education Programs (Under Sections 529 and 530)* each year from the QTP. As long as the distributions shown on **Form 1099-Q** are used to pay only qualified education expenses, the beneficiary does not pay income tax on the distribution.

Qualified postsecondary (college) education expenses include:

- Tuition and fees (if required for enrollment)
- Books, supplies, equipment (if required for enrollment)
- Expenses for special needs services needed by a special needs beneficiary incurred in connection with enrollment
- Expenses for room and board for students who are at least half time that are not greater of the following two amounts:
 - Allowance for room and board, as determined by the school, included in the cost of attendance (for federal financial aid purposes). (You may need to research the school's qualified room and board costs. Example: see ACC's 2019-2020 cost of attendance for in-district, out-of-district, and out-of-state students.)
 - Actual amount charged if student is residing in housing owned or operated by the school
- Purchase of computer or peripheral equipment, software, or Internet access and related services if it's to be used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible postsecondary school.

Qualified elementary and secondary education expenses may include no more than \$10,000 paid for elementary or secondary school tuition incurred after 2017.

How to Assist the Taxpayer

1. Determine if the distribution is within scope.

- If 100% of the distribution amount listed in **Box 1** was used for qualified education expenses and is therefore not taxable, the return is in scope.
 - If any amount of **Box 1** was used for other non-qualified expenses, the return is out of scope and must be referred to Special Tax Services. See “STS List of Services.”
2. For in scope tax returns, determine if the tax return can be prepared on-site.
- If the client is not claiming an education credit (such as AOC or LLC) on the tax return, the tax return can be prepared as usual on-site at the Tax Help Centers. **Form 1099-Q** is not reported anywhere on the tax return.
 - If the client is claiming an education credit but is not moving any amount of scholarships or grants to taxable income, the tax return can be prepared as usual on-site at the Tax Help Centers. **Form 1099-Q, Box 1** is reported on the Education Expenses Worksheet in the **Form 1099-Q Distributions** field.
 - If the client is claiming an education credit and is moving any amount of scholarships or grants to taxable income, the tax return must be sent to the Drop-Off Team to ensure that the distribution reported on **Form 1099-Q** is correctly reported on the tax return. This is because an AOC or LLC education credit can be claimed in the same year that the beneficiary takes a tax-free distribution from a QTP, but the same expenses cannot be used for benefits.