

Form 1099-Q and Education Expenses: Scope & Preparation

State-sponsored Section 529 plans or Coverdell education savings accounts (Coverdell ESA) 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. In short, an accredited institution.

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.

Note: If the distributions shown on **Form 1099-Q** are used to pay only qualified education expenses, the distribution **will not be taxable**.

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 than 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 they are 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

Determine if the distribution is **in scope**.

100% of the distribution amount listed in Box 1 was used for qualified education expenses.	IN SCOPE <i>Form 1099-Q, Box 1 is reported on the Education Expenses Worksheet in the Form 1099-Q Distributions field.</i>
100% of the distribution amount listed in Box 1 was used for qualified education expenses AND any amount of scholarships or grants is being transferred to taxable income in order to maximize the amount of the education credit.	IN SCOPE but send to the DROP-OFF PROGRAM This is necessary to ensure that the distribution reported on Form 1099-Q is correctly reported on the tax return. An education credit can be claimed in the same year that the beneficiary takes a tax-free distribution from an education savings account, but the same expenses cannot be used for both the credit and the tax-free distribution.
Any amount of Box 1 was used for expenses that were NOT qualified education expenses.	OUT OF SCOPE Refer the taxpayer to Special Tax Services. See STS List of Services .

1. Determine if the distribution is within scope.
 - ▶ The return is in scope if 100% of the distribution was used for qualified education expenses. (This may include room and board depending on the requirements of the account. Use **Box 1** amount when determining if full distribution was used for qualified education expenses.) This means none of the distribution is taxable. If any part of the distribution was used for expenses other than education, the return is out of scope. Refer the client to the Special Tax Services program.
2. Determine whether the return can be prepared onsite or should be sent to Drop-Off.

- If the client is not getting an education credit on the return, you do not need to enter **Form 1099-Q** anywhere on the return. The tax return can be prepared onsite.
- If the client is getting an education credit but no amount of scholarships or grants are being moved to taxable income for the student, enter **Form 1099-Q** amount on the Education Worksheet and proceed as usual. The return can be prepared onsite.
- If the client is getting an education credit and any amount of scholarships or grants are being moved to taxable income, the **Form 1099-Q** distribution can make the calculation more complicated. Do not prepare the tax return onsite - send it to Drop Off to ensure correct preparation.