



Wolters Kluwer

Education Tax Benefits Course Instructions

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Instructions to Participants

To assist the participant with navigating the learning process through to successful completion, this course has been produced with the following elements:

Overview of Topics / Table of Contents: In this electronic format you'll find a slide menu on the left side of the screen. This serves as your overview of topics for the program. You may navigate to any topic by clicking on the slide name.

Definition of Key Terms / Glossary: You'll find key terms defined for this program in the course information on the following page(s).

Index / Key Word Search: You can find information quickly in the PDF materials (slide handout plus any additional handouts) by using the search function built into your Adobe Reader.

Review Questions: Questions that test your understanding of the material are placed throughout the course. You'll see explanatory feedback pop up for each incorrect answer, and reinforcement feedback for the correct answer for every review question.

Final Exam: The final exam measures if you have gained the knowledge, skills, or abilities outlined in the learning objectives. You may submit your final exam at the end of the course. Exams are graded instantly. A minimum score of 70% is required to receive the certificate of completion. **You have one year from date of purchase to complete the course.**

Course Evaluation: Once you have successfully passed your online exam, please complete our online course evaluation. Your feedback helps Wolters Kluwer maintain its high quality standards!

About This Course

This section provides information that is important for understanding the course, such as course level and prerequisites. Please consider this information when filling out your evaluation after completing the course.

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Course Description

Education Tax Benefits examines the programs, credits, deductions and federal income tax treatment of various items that affect saving for and financing an individual's education. In so doing, it considers qualified tuition programs (QTPs), Coverdell education savings accounts (ESAs), the education savings bond program, federal tax credits for education, the federal tax treatment of scholarships, fellowships, grants and tuition reductions and the deductions available for student loan interest, tuition and fees.

Learning Objectives

Upon successful completion of this course, participants should be able to:

- Identify features and tax benefits of qualified tuition programs available under IRC §529
- Recognize limits and tax treatment of contributions to and distributions from a Coverdell education savings account (ESA)
- Identify tax treatment of interest earned under qualified U.S. savings bonds used to pay education expenses
- Identify and apply American opportunity and lifetime learning credit rules
- Recognize tax treatment given to scholarships, fellowships and or types of educational assistance
- Identify and apply federal income tax rules applicable to payment of tuition and fees and student loan interest

NASBA Field of Study

Taxes. Some state boards may count credits under different categories—check with your state board for more information.

Course Level

Basic. Program knowledge level most beneficial to CPAs new to a skill or an attribute. These individuals are often at the staff or entry level in organizations, although such programs may also benefit a seasoned professional with limited exposure to the area.

Prerequisites

None.

Advance Preparation

None.

Course Expiration

AICPA and NASBA Standards require all Self-Study courses to be completed and the final

exam submitted within 1 year from the date of purchase as shown on your invoice. No extensions are allowed under AICPA/NASBA rules.

Key Terms

- **American opportunity tax credit:** An American opportunity tax credit is a credit of up to \$2,500 for qualified education expenses paid for each eligible student, part of which is refundable, that is available to a taxpayer whose income does not exceed certain limits.
- **Applicable amount:** The amount of a taxpayer's modified adjusted gross income (MAGI) at which a tax benefit begins to phase out.
- **Beneficiary (Coverdell ESA):** A Coverdell education savings account beneficiary may be any individual who is under age 18 at the time of contribution. The beneficiary age limit does not apply if the beneficiary is a special needs beneficiary.
- **College savings plan:** A college savings plan is a qualified tuition program under which a taxpayer invests money into a special account established for a designated beneficiary.
- **Contract plan:** A contract plan is a prepaid tuition plan under which a taxpayer agrees to purchase a specified number of years of tuition. Contract plans are generally priced so that the purchase price is smaller when the plan beneficiaries are younger children. Such contract plans assume that, when plan beneficiaries are younger children, more time is available to the educational institution to invest the funds before the beneficiary actually attends college.
- **Coverdell education savings acco:** A Coverdell education savings account (ESA) is a trust or custodial account designed to enable taxpayers to save education funds on a tax-deferred basis and make tax-free withdrawals to pay for qualified education expenses.
- **Education savings bond program:** The education savings bond program is a federal tax benefit under which eligible taxpayers may exclude the interest on certain U.S. savings bonds when they incur qualified education expenses at an eligible educational institution.
- **Eligible educational institution:** An eligible educational institution is an educational institution at which certain expenses for enrollment or attendance would be considered qualified education expenses. Educational institutions that are considered "eligible" vary, depending on the type of education tax benefit.
- **Excess distribution (Coverdell E:** An excess distribution from a Coverdell ESA is a distribution that exceeds the taxpayer's adjusted qualified education expenses. A fellowship is an amount paid for the benefit of an individual to aid in the pursuit of study or research.
- **Lifetime learning tax credit:** A lifetime learning tax credit is a nonrefundable tax credit of up to \$2,000 per tax return for qualified education expenses paid by a taxpayer whose income does not exceed certain limits.
- **Modified adjusted gross income (:** Modified adjusted gross income (MAGI), for purposes of various education tax benefits, is the taxpayer's adjusted gross income (AGI) adjusted to add back certain amounts excluded from income for tax purposes.
- **Nonrefundable tax credit:** A nonrefundable tax credit is a tax credit that is limited in amount to the taxpayer's income tax liability for the taxable year.
- **Pell grant:** A Pell grant is a need-based education grant.
- **Prepaid tuition plan:** A prepaid tuition plan is one of two optional approaches available under a qualified tuition program. Under a prepaid tuition plan a taxpayer

pays now for future education. Thus, a taxpayer may lock in the costs of attending college—college attendance that might not occur for many years in the future.

- **Prepaid unit plan:** A prepaid unit plan is a prepaid tuition plan, under which a taxpayer purchases units representing a fixed percentage of tuition. For example, one unit may represent 1% of a year's tuition. In such plans, although every purchaser pays the same price, the price of a prepaid unit generally increases annually.
- **Qualified education expenses:** Qualified education expenses are expenses related to enrollment and/or attendance at an eligible educational institution. Education expenses may vary, depending on the type of education tax benefit.
- **Qualified student loan:** A qualified student loan is a loan taken by the taxpayer solely to pay the taxpayer's, spouse's or dependents' qualified education expenses paid or incurred within a reasonable period of time before or after the taxpayer took out the loan for education provided during an academic period for an eligible student.
- **Qualified tuition program:** Qualified tuition programs are programs offered by each of the 50 states and the District of Columbia pursuant to which a taxpayer may contribute funds for the purpose of paying a designated beneficiary's qualified education expenses at a postsecondary educational institution. A qualified tuition program offers participants certain federal tax benefits and, depending upon the state, may also offer additional state tax benefits.
- **Qualified tuition reduction:** A tuition reduction that is tax-free is referred to as a qualified tuition reduction.
- **Recapture:** The requirement that a tax credit or deduction be repaid.
- **The requirement that a tax credit:** A refundable tax credit is a tax credit that may be recovered by the taxpayer regardless of the amount of the taxpayer's income tax liability for the taxable year.
- **Scholarship:** A scholarship is an amount paid or allowed to, or for the benefit of, a student at an educational institution to aid in the pursuit of undergraduate or graduate studies.
- **Student loan interest deduction:** The student loan interest deduction is a deduction of up to \$2,500 allowed for interest payments made on a student loan used solely to pay higher education expenses.
- **Taxable scholarships and fellows:** Taxable scholarships and fellowships are educational assistance programs under which amounts are used to pay expenses that do not qualify for tax-exemption, any payments received by the taxpayer for services and scholarships awarded as prizes.
- **Tax-free educational assistance:** Tax-free educational assistance, whose receipt generally requires a reduction of qualified education expenses, includes the tax-free parts of scholarships and fellowships, Pell grants, employer-provided educational assistance, veterans' educational assistance and other nontaxable payments received as educational assistance.
- **Tuition reduction:** A taxpayer receives a "tuition reduction" if allowed to study tuition-free or for a reduced rate of tuition.
- **Veterans' education benefits:** Payments that a taxpayer receives for education, training or subsistence under a law administered by the Department of Veterans Affairs. Such benefits are tax-free.