# 2024 · IS THE DISTRIBUTION FROM MY 529 PLAN SUBJECT TO FEDERAL INCOME TAX?

HERITAGE FINANCIAL
*Every detail matters.*

**Start Here**

Do you have Qualified Education Expenses (QEE) this year?

- Yes → Add up all Qualified Education Expenses for the year.
- No → Did the beneficiary pass away, become terminally ill or have a long-term disability?

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- No. Sorry, the gains from any distribution will be taxed as ordinary income, plus a 10% penalty.
- Passed away or terminally ill. The gains are taxed as ordinary income, but no penalty.
- Disabled. Up to $18k/year can be rolled over to a 529A ABLE account without penalty.

Not sure. Look below to see if the expense qualifies.

- Tuition and fees. This is a qualified expense for higher education, and up to $10k/year for elementary/ secondary school.
- Room and board. This is a qualified expense, if enrolled half-time or more and the cost does not exceed the budgeted amount set by the school.
- Books and supplies (e.g., a computer). This is a qualified expense, if required for enrollment or attendance.
- Apprenticeship programs. Includes fees, books and supplies, and required equipment. This is a qualified expense if the program is registered with the DOL.
- Student loan repayment. Up to $10k lifetime limit per person. An additional $10k may be distributed to each of the beneficiary's siblings.

Add up all Qualified Education Expenses for the year.

Deduct tax-free educational assistance.

This includes scholarships, grants, Veterans educational assistance, tax-free parts of Pell grants, employer-provided educational assistance, distributions from Coverdell Savings accounts.

Was the Lifetime Learning Tax Credit claimed?

- No → Was the American Opportunity Tax Credit claimed?
- Yes → Reduce QEE by expenses for which credit was claimed (up to $10k).

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- Yes → Reduce QEE by expenses for which credit was claimed (up to $4k).
- No → You have arrived at Adjusted Qualified Education Expense (AQEE).

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You have arrived at Adjusted Qualified Education Expense (AQEE).

Is the distribution from the 529 Plan less than or equal to the AQEE?

- Yes → The distribution from the 529 Plan is tax-free.
- No → Sorry, a portion of the distribution from the 529 Plan is taxed as ordinary income.

Sorry, a portion of the distribution from the 529 Plan is taxed as ordinary income.

Portion of distribution taxable as ordinary income equals:
529 Plan earnings - (529 Plan earnings x [AQEE / 529 Plan Distribution]).

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