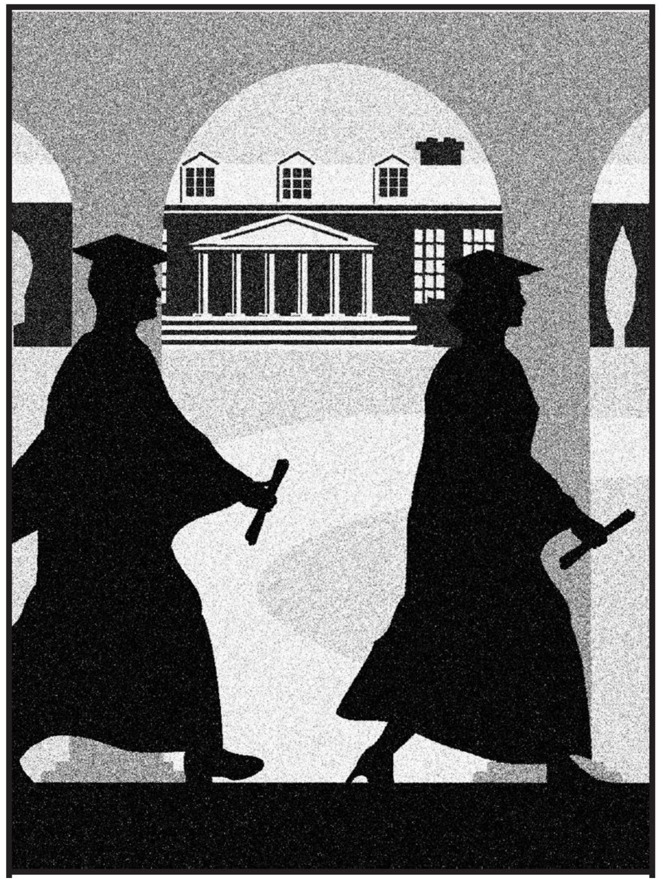
Publication 970

Tax Benefits for Education

For use in preparing **2023** Returns

Volume 4 of 5



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Publication 970 (Rev. 2023) Catalog Number 39324N
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Exception for Transfer to Surviving Spouse or Family Member

If a Coverdell ESA is transferred to a surviving spouse or other family member as the result of the death of the designated beneficiary, the Coverdell ESA retains its status. (“Family member” was defined earlier under *Rollovers*.) This means the spouse or other family member can treat the Coverdell ESA as their own and doesn't need to withdraw the assets until they reach age 30. This age limitation doesn't apply if the new beneficiary is a special needs beneficiary. There are no tax consequences as a result of the transfer.

How To Figure the Taxable Earnings

When a total distribution is made because the designated beneficiary either reached age 30 or died, the earnings that accumulated tax free in the account must be included in taxable income. You determine these earnings as shown in the following two steps.

1. Multiply the amount distributed by a fraction. The numerator (top part) is the basis (contributions not previously distributed) at the end of 2022 plus total contributions for 2023, and the denominator (bottom part) is the balance in the account at the end of 2023 plus the amount distributed during 2023.
2. Subtract the amount figured in (1) from the total amount distributed during 2023. The result is the amount of earnings included in the distribution.

For an example, see steps 1 and 2 of the <u>*Example*</u> under *Figuring the Taxable Portion of a Distribution*, earlier.

The beneficiary or other person receiving the distribution must report this amount on Schedule 1 (Form 1040), line 8z, listing the type and amount of income.

Worksheet 6-3. **Coverdell ESA—Taxable Distributions and Basis**

Keep for Your Records

How to complete this worksheet.

- Complete Part I, lines A through H, on only one worksheet.
- Complete a separate Part II, lines 1 through 15, for each of your Coverdell ESAs.
- Complete Part III, the Summary (line 16), on only one worksheet.

Caution. If you had a distribution from a qualified tuition program (QTP), see *Coordination With Qualified Tuition Program (QTP) Distributions*.

Part I. Qualified Education Expenses (Complete for total expenses.)

A.	Enter your total qualified education expenses for 2023		**A.** ______
B.	Enter those qualified education expenses paid for with tax-free educational assistance (for example, tax-free scholarships, veterans' educational benefits, Pell grants, employer-provided educational assistance)	**B.** ______	
C.	Enter those qualified higher education expenses deducted on Schedule C (Form 1040), Schedule F (Form 1040), or Schedule 1 (Form 1040), line 12	**C.** ______	
D.	Enter those qualified **higher** education expenses on which an American opportunity or lifetime learning credit was based	**D.** ______	
E.	Add lines B, C, and D		**E.** ______
F.	Subtract line E from line A. This is your AQEE for 2023		**F.** ______
G.	Enter your total distributions from **all** Coverdell ESAs during 2023. Don't include rollovers or the return of excess contributions. See instructions		**G.** ______
H.	Divide line F by line G. Enter the result as a decimal (rounded to at least 3 places). If the result is 1.000 or more, enter 1.000		**H.** ___ . ___

Part II. Taxable Distributions and Basis (Complete separately for each account.)

1.	Enter the amount contributed to **this** Coverdell ESA for 2023, including contributions made for 2023 from January 1, 2024, through the due date (not including extensions) for filing your 2023 return. **Don't** include rollovers or the return of excess contributions		**1.** ______
2.	Enter your basis in **this** Coverdell ESA as of December 31, 2022. See instructions		**2.** ______
3.	Add lines 1 and 2		**3.** ______
4.	Enter the total distributions from **this** Coverdell ESA during 2023. **Don't** include rollovers or the return of excess contributions. See instructions		**4.** ______
5.	Multiply line 4 by line H. This is the amount of AQEE attributable to this Coverdell ESA	**5.** ______	
6.	Subtract line 5 from line 4	**6.** ______	
7.	Enter the total value of **this** Coverdell ESA as of December 31, 2023, plus any outstanding rollovers. See instructions	**7.** ______	
8.	Add lines 4 and 7	**8.** ______	
9.	Divide line 3 by line 8. Enter the result as a decimal (rounded to at least 3 places). If the result is 1.000 or more, enter 1.000	**9.** ___ . ___	
10.	Multiply line 4 by line 9. This is the amount of basis allocated to your distributions, and is tax free		**10.** ______
	Note. If line 6 is zero, skip lines 11 through 13, enter -0- on line 14, and go to line 15.		
11.	Subtract line 10 from line 4		**11.** ______
12.	Divide line 5 by line 4. Enter the result as a decimal (rounded to at least 3 places). If the result is 1.000 or more, enter 1.000	**12.** ___ . ___	
13.	Multiply line 11 by line 12. This is the amount of qualified education expenses allocated to your distributions, and is tax free		**13.** ______
14.	Subtract line 13 from line 11. This is the **portion of the distributions from this Coverdell ESA in 2023 that you must include in income**		**14.** ______
15.	Subtract line 10 from line 3. This is your **basis in this Coverdell ESA as of December 31, 2023**		**15.** ______

Part III. Summary (Complete only once.)

16.	**Taxable amount.** Add together all amounts on line 14 for all your Coverdell ESAs. **Enter here and include on Schedule 1 (Form 1040), line 8z,** listing the type and amount of income	**16.** ______

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7.

Qualified Tuition Program (QTP)

What’s New for 2024

Rollover to Roth IRA. The Secure 2.0 Act of 2022 updated section 529. For distributions after 12/31/2023, section 529(c)(3)(E) outlines a new rollover provision from long-term Qualified Tuition Programs to Roth IRAs.

Introduction

QTPs are also called 529 plans. States may establish and maintain programs that allow you to either prepay or contribute to an account for paying a student's qualified education expenses at an eligible educational institution. Eligible educational institutions may establish and maintain programs that allow you to prepay a student's qualified education expenses. If you prepay tuition, the student (designated beneficiary) will be entitled to a waiver or a payment of qualified education expenses. You can't deduct either payments or contributions to a QTP. For information on a specific QTP, you will need to contact the state agency or eligible educational institution that established and maintains it.

What is the tax benefit of a QTP? No tax is due on a distribution from a QTP unless the amount distributed is greater than the beneficiary's adjusted qualified education expenses (AQEE). See *Are Distributions Taxable*, later, for more information.

TIP *Even if a QTP is used to finance a student's education, the student or the student's parents may still be eligible to claim the American opportunity credit or the lifetime learning credit. See Coordination With American Opportunity and Lifetime Learning Credits, later.*

What Is a QTP?

A QTP is a program set up to allow you to either prepay or contribute to an account established for paying a student's qualified education expenses at an eligible educational institution. QTPs can be established and maintained by states (or agencies or instrumentalities of a state) and eligible educational institutions. The program must meet certain requirements. Your state government or the eligible educational institution in which you are interested can tell you whether or not they participate in a QTP.

Qualified Education Expenses

Generally, these are expenses required for the enrollment or attendance of the designated beneficiary at an eligible educational institution. For purposes of QTPs, the expenses can be either qualified higher education expenses or qualified elementary and secondary education expenses.

Designated beneficiary. The designated beneficiary is generally the student (or future student) for whom the QTP is intended to provide benefits. The designated beneficiary can be changed after participation in the QTP begins. If a state or local government or certain tax-exempt organizations purchase an interest in a QTP as part of a scholarship program, the designated beneficiary is the person who receives the interest as a scholarship.

Eligible Educational Institution

For purposes of a QTP, an eligible educational institution can be either an eligible postsecondary school or an eligible elementary or secondary school.

Eligible postsecondary school. An eligible postsecondary school is generally any accredited public, nonprofit, or proprietary (privately owned profitmaking) college, university, vocational school, or other postsecondary educational institution. Also, the institution must be eligible to participate in a student aid program administered by the U.S. Department of Education. Virtually all accredited postsecondary institutions meet this definition. The educational institution should be able to tell you if it's an eligible educational institution.

An eligible educational institution also includes certain educational institutions located outside the United States that are eligible to participate in a student aid program administered by the U.S. Department of Education.

Eligible elementary or secondary school. An eligible elementary or secondary school is any public, private, or religious school that provides elementary or secondary education (kindergarten through grade 12), as determined under state law.

Qualified Higher Education Expenses

These are expenses related to enrollment or attendance at an eligible postsecondary school. As shown in the following list, to be qualified, some of the expenses must be required by the school and some must be incurred by students who are enrolled at least halftime, defined later.

1. The following expenses must be required for enrollment or attendance of a designated beneficiary at an eligible postsecondary school.
    a. Tuition and fees.
    b. Books, supplies, and equipment.
2. Expenses for special needs services needed by a special needs beneficiary must be incurred in connection with enrollment or attendance at an eligible postsecondary school.
3. Expenses for room and board must be incurred by students who are enrolled at least halftime (defined later).

The expense for room and board qualifies only to the extent that it isn't more than the greater of the following two amounts.

a. The allowance for room and board, as determined by the school, that was included in the cost of attendance (for federal financial aid purposes) for a particular academic period and living arrangement of the student.

b. The actual amount charged if the student is residing in housing owned or operated by the school.

You may need to contact the eligible educational institution for qualified room and board costs.

4. The purchase of computer or peripheral equipment, computer 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. (This doesn't include expenses for computer software for sports, games, or hobbies unless the software is predominantly educational in nature.)

5. The expenses for fees, books, supplies, and equipment required for the designated beneficiary’s participation in an apprenticeship program registered and certified with the Secretary of Labor under section 1 of the National Apprenticeship Act.

6. No more than $10,000 paid as principal or interest on qualified student loans of the designated beneficiary or the designated beneficiary’s sibling. A sibling includes a brother, sister, stepbrother, or stepsister. For purposes of the

$10,000 limitation, amounts treated as a qualified higher education expense for the loans of a sibling are taken into account for the sibling and not for the designated beneficiary. You can’t deduct as interest on a student loan (see chapter 4) any amount paid from a distribution of earnings from a QTP after 2018 to the extent the earnings are treated as tax free because they were used to pay student loan interest.

Half-time student. A student is enrolled “at least halftime” if the student is enrolled for at least half the fulltime academic workload for the course of study the student is pursuing, as determined under the standards of the school where the student is enrolled.

Qualified Elementary and Secondary Education Expenses

These are expenses for no more than $10,000 of tuition, incurred by a designated beneficiary, in connection with enrollment or attendance at an eligible elementary or secondary school.

How Much Can You Contribute?

Contributions to a QTP on behalf of any beneficiary can't be more than the amount necessary to provide for the qualified education expenses of the beneficiary. There are no income restrictions on the individual contributors.

You can contribute to both a QTP and a Coverdell education savings account (ESA) in the same year for the same designated beneficiary.

Recontribution of Refunded Amounts

If a student receives a refund of qualified education expenses that were treated as paid by a QTP distribution, the student can recontribute these amounts into any QTP for which they are the beneficiary within 60 days after the date of the refund to avoid the need to figure the taxable part of the QTP distribution.

Are Distributions Taxable?

The part of a distribution representing the amount paid or contributed to a QTP doesn't have to be included in income. This is a return of the investment in the plan.

The designated beneficiary generally doesn't have to include in income any earnings distributed from a QTP if the total distribution is less than or equal to AQEE (defined under *Figuring the Taxable Portion of a Distribution*, below).

Earnings and return of investment. You will receive a Form 1099-Q from each of the programs from which you received a QTP distribution in 2023. The amount of your gross distribution (box 1) shown on each form will be divided between your earnings (box 2) and your basis, or return of investment (box 3). Form 1099-Q should be sent to you by January 31, 2024.

Figuring the Taxable Portion of a Distribution

To determine if total distributions for the year are more or less than the amount of qualified education expenses, you must compare the total of all QTP distributions for the tax year to the AQEE.

Adjusted qualified education expenses (AQEE). This amount is the total qualified education expenses reduced by any tax-free educational assistance. Tax-free educational assistance includes:

- The tax-free part of scholarships and fellowship grants (see *Tax-Free Scholarships and Fellowship Grants* in chapter 1);

- Veterans' educational assistance (see *Veterans' Benefits* in chapter 1);
- The tax-free part of Pell grants (see *Pell Grants and Other Title IV Need-Based Education Grants* in chapter 1);
- Employer-provided educational assistance (see chapter 10); and
- Any other nontaxable (tax-free) payments (other than gifts or inheritances) received as educational assistance.

Taxable earnings. Use the following steps to figure the taxable part.

1. Multiply the total distributed earnings shown in box 2 of Form 1099-Q by a fraction. The numerator (top part) is the AQEE paid during the year, and the denominator (bottom part) is the total amount distributed during the year.

2. Subtract the amount figured in (1) from the total distributed earnings. The result is the amount the beneficiary must include in income. Report it on Schedule 1 (Form 1040), line 8z.

Example 1. In 2014, a young student's parents opened a savings account for them with a QTP maintained by their state government. Over the years, the parents contributed $18,000 to the account. The total balance in the account was $27,000 on the date the distribution was made. In the summer of 2023, the student enrolled in college and had $8,300 of qualified education expenses for the rest of the year. The college expenses were paid from the following sources.

Gift from parents $1,600

Partial tuition scholarship (tax free) . 3,100

QTP distribution 5,300

Before the student can determine the taxable part of their QTP distribution, they must reduce their total qualified education expenses by any tax-free educational assistance.

Total qualified education expenses	$8,300
Minus: Tax-free educational assistance . . .	– 3,100
Equals: AQEE	$5,200

Since the remaining expenses ($5,200) are less than the QTP distribution, part of the earnings will be taxable.

The student’s Form 1099-Q shows that $950 of the QTP distribution is earnings. They figure the taxable part of the distributed earnings as follows.

1. $\$950 \text{ (earnings)} \times \dfrac{\$5{,}200 \text{ AQEE}}{\$5{,}300 \text{ distribution}}$

   $= \$932 \text{ (tax-free earnings)}$

2. $\$950 \text{ (earnings)} - \$932 \text{ (tax-free earnings)}$

   $= \$18 \text{ (taxable earnings)}$

They must include $18 in income (Schedule 1 (Form 1040), line 8z) as distributed QTP earnings not used for AQEE.

Coordination With American Opportunity and Lifetime Learning Credits

An American opportunity or lifetime learning credit (education credit) can be claimed in the same year the beneficiary takes a tax-free distribution from a QTP, as long as the same expenses aren't used for both benefits. This means that after the beneficiary reduces qualified education expenses by tax-free educational assistance, the beneficiary must further reduce them by the expenses taken into account in determining the credit.

Example 2. Assume the same facts as in *Example 1*, except that the parents claimed an American opportunity credit of $2,500 (based on $4,000 expenses).

Total qualified education expenses . .	$8,300
Minus: Tax-free educational assistance	− 3,100
Minus: Expenses taken into account in figuring American opportunity credit . .	− 4,000
Equals: AQEE	$1,200

The taxable part of the distribution is figured as follows.

1. $\$950 \text{ (earnings)} \times \dfrac{\$1{,}200 \text{ AQEE}}{\$5{,}300 \text{ distribution}}$

$= \$215 \text{ (tax-free earnings)}$

2. $\$950 \text{ (earnings)} - \$215 \text{ (tax-free earnings)}$

$= \$735 \text{ (taxable earnings)}$

The student must include $735 in income (Schedule 1 (Form 1040), line 8z). This represents distributed earnings not used for AQEE.

Coordination With Coverdell ESA Distributions

If a designated beneficiary receives distributions from both a QTP and a Coverdell ESA in the same year, and the total of these distributions is more than the beneficiary's AQEE, the expenses must be allocated between the distributions.

Example 3. Assume the same facts as in *Example 2*, except that instead of receiving a $5,300 distribution from their QTP, the student received $4,600 from that account and $700 from their Coverdell ESA. In this case, the student must allocate their $1,200 of AQEE between the two distributions.

$$\begin{array}{c} \$1{,}200 \\ \text{AQEE} \end{array} \times \frac{\$700 \text{ ESA distribution}}{\$5{,}300 \text{ total distribution}} = \begin{array}{c} \$158 \\ \text{AQEE (ESA)} \end{array}$$

$$\begin{array}{c} \$1{,}200 \\ \text{AQEE} \end{array} \times \frac{\$4{,}600 \text{ QTP distribution}}{\$5{,}300 \text{ total distribution}} = \begin{array}{c} \$1{,}042 \\ \text{AQEE (QTP)} \end{array}$$

The student then figures the taxable portion of their Coverdell ESA distribution based on qualified education expenses of $158, and the taxable portion of their QTP distribution based on the other $1,042.

Note. If you are required to allocate your expenses between Coverdell ESA and QTP distributions, and you have adjusted qualified elementary and secondary education expenses, see the examples in chapter 6 under *Coordination With Qualified Tuition Program (QTP) Distributions*.

Losses on QTP Investments

For tax years beginning after 2017 and before 2026, if you have a loss on your investment in a QTP account, you can’t claim the loss on your income tax return. You have a loss only when all amounts from that account have been distributed and the total distributions are less than your unrecovered basis. Your basis is the total amount of contributions to that QTP account.

CAUTION *The aggregation rules that applied if you had distributions from more than one QTP account during a year were eliminated for distributions after 2014. For more information, see Notice 2016-13, available at IRS.gov/IRB/2016-07_IRB#NOT-2016-13.*

Additional Tax on Taxable Distributions

Generally, if you receive a taxable distribution, you must also pay a 10%

additional tax on the amount included in income.

Exceptions. The 10% additional tax doesn't apply to the following distributions.

1. Paid to a beneficiary (or to the estate of the designated beneficiary) on or after the death of the designated beneficiary.
2. Made because the designated beneficiary is disabled. A person is considered to be disabled if proof is provided showing there is a physical or mental impairment that substantially limits any gainful activity. A physician must determine that the person's condition can be expected to result in death or to be of long-continued and indefinite duration.
3. Included in income because the designated beneficiary received:

a. A tax-free scholarship or fellowship grant (see *Tax-Free Scholarships and Fellowship Grants* in chapter 1);

b. Veterans' educational assistance (see *Veterans' Benefits* in chapter 1);

c. Employer-provided educational assistance (see chapter 10); or

d. Any other nontaxable (tax-free) payments (other than gifts or inheritances) received as educational assistance.

This exception only applies to the extent the distribution isn't more than the scholarship, allowance, or payment.

4. Made on account of the attendance of the designated beneficiary at a U.S. military academy (such as the USNA at Annapolis). This exception applies only

to the extent that the amount of the distribution doesn't exceed the costs of advanced education (as defined in section 2005(d)(3) of title 10 of the U.S. Code) attributable to such attendance.

5. Included in income only because the qualified education expenses were taken into account in determining the American opportunity or lifetime learning credit (see *Coordination With American Opportunity and Lifetime Learning Credits*, earlier).

Figuring the additional tax. Use Part II of Form 5329 to figure any additional tax. Report the amount on Schedule 2 (Form 1040), line 8.

Rollovers and Other Transfers

Assets can be rolled over or transferred from one QTP to another or from a QTP to an ABLE account. In addition, the designated beneficiary can be changed without transferring accounts.

Rollovers

Any amount distributed from a QTP isn't taxable if it's rolled over to either:

- Another QTP for the benefit of the same beneficiary or for the benefit of a member of the beneficiary's family (including the beneficiary's spouse), or
- An ABLE account for the benefit of the same beneficiary or for the benefit of a member of the beneficiary’s family (including the beneficiary’s spouse). But this doesn’t apply to the extent the amount distributed when added to other amounts contributed to the ABLE account exceeds the annual contribution limit. For more information about ABLE accounts, see Pub. 907, Tax Highlights for Persons With Disabilities.

You should contact the qualified ABLE program before contributing any funds to the ABLE account to ensure that the contribution limit will not be exceeded.

An amount is rolled over if it's paid to an ABLE account or another QTP within 60 days after the date of the distribution.

Don't report qualifying rollovers (those that meet the above criteria) anywhere on Form 1040, 1040-SR, or 1040-NR. These aren't taxable distributions.

Members of the beneficiary's family. For these purposes, the beneficiary's family includes the beneficiary's spouse and the following other relatives of the beneficiary.

1. Son, daughter, stepchild, foster child, adopted child, or a descendant of any of them.
2. Brother, sister, stepbrother, or stepsister.

3. Father or mother or ancestor of either.
4. Stepfather or stepmother.
5. Son or daughter of a brother or sister.
6. Brother or sister of father or mother.
7. Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law.
8. The spouse of any individual listed above.
9. First cousin.

Example. When you graduated from college in January last year, you had $5,000 left in your QTP. You wanted to give this money to your younger sibling, who was in junior high school. In order to avoid paying tax on the distribution of the amount remaining in your account, you contributed the same amount to your sibling's QTP within 60 days of the distribution.

If the rollover is to another QTP for the same beneficiary, generally, only one rollover is allowed within 12 months of a previous transfer to any QTP for that designated beneficiary. However, taxpayers who receive a Form 1099-Q with respect to a qualifying rollover to or from the Maryland Prepaid College Trust (MPCT) and meet the criteria of Notice 2024-23 are not subject to the 12-month limitation. Notice 2024-23 will be available in IRB 2024-7, available at IRS.gov/IRB.

Changing the Designated Beneficiary

There are no income tax consequences if the designated beneficiary of an account is changed to a member of the beneficiary's family. See *Members of the beneficiary's family*, earlier.

Example. Assume the same situation as in the last example. Instead of closing your QTP and paying the distribution into your sibling's

QTP, you could have instructed the trustee of your account to simply change the name of the beneficiary on the account to that of your sibling.

8.

Education Exception to Additional Tax on Early IRA Distributions

Introduction

Generally, if you take a distribution from your IRA before you reach age 59$^{1}/_{2}$, you must pay a 10% additional tax on the early distribution. This applies to any IRA you own, whether it is a traditional IRA (including a SEP-IRA), a Roth IRA, or a SIMPLE IRA. The additional tax on an early distribution from a SIMPLE IRA may be as high as 25%. See Pub. 560, Retirement Plans for Small Business, for information on SEP-IRAs, and Pub. 590-B for information about distributions from all other IRAs.

However, you can take distributions from your IRAs for qualified higher education expenses without having to pay the 10% additional tax. You may owe income tax on at least part of the amount distributed, but you may not have to pay the 10% additional tax.

Generally, if the taxable part of the distribution is less than or equal to the adjusted qualified education expenses (AQEE), none of the distribution is subject to the additional tax. If the taxable part of the distribution is more than the AQEE, only the excess is subject to the additional tax.

Who Is Eligible?

You can take a distribution from your IRA before you reach age 59$^1/_2$ and not have to pay the 10% additional tax if, for the year of the distribution, you pay qualified education expenses for:

- Yourself;
- Your spouse;

- Your or your spouse's child, foster child, or adopted child; or
- Your or your spouse’s grandchild.

Qualified education expenses. For purposes of the 10% additional tax, these expenses are tuition, fees, books, supplies, and equipment required for enrollment or attendance at an eligible educational institution. They also include expenses for special needs services incurred by or for special needs students in connection with their enrollment or attendance.

In addition, if the student is at least a half-time student, room and board are qualified education expenses.

The expense for room and board qualifies only to the extent that it isn't more than the greater of the following two amounts.

1. The allowance for room and board, as determined by the eligible educational institution, that was included in the

cost of attendance (for federal financial aid purposes) for a particular academic period and living arrangement of the student.

2. The actual amount charged if the student is residing in housing owned or operated by the eligible educational institution.

You may need to contact the eligible educational institution for qualified room and board costs.

Eligible educational institution. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education. Virtually all accredited public, non-profit, and proprietary (privately owned profit-making) postsecondary institutions meet this definition.

An eligible educational institution also includes certain educational institutions located outside the United States that are eligible to participate in a student aid program administered by the U.S. Department of Education.

TIP *The educational institution should be able to tell you if it is an eligible educational institution.*

Half-time student. A student is enrolled “at least half-time” if the student is enrolled for at least half the full-time academic workload for the course of study the student is pursuing as determined under the standards of the school where the student is enrolled.

Figuring the Amount Not Subject to the 10% Tax

To determine the amount of your distribution that isn't subject to the 10% additional tax, first figure your AQEE. You do this by reducing your total qualified education expenses by any tax-free educational assistance, which includes:

- Expenses used to figure the tax-free portion of distributions from a Coverdell education savings account (ESA) (see *Distributions* in chapter 6);
- The tax-free part of scholarships and fellowship grants (see *Tax-Free Scholarships and Fellowship Grants* in chapter 1);
- The tax-free part of Pell grants (see *Pell Grants and Other Title IV Need-Based Education Grants* in chapter 1);
- Veterans' educational assistance (see *Veterans' Benefits* in chapter 1);
- Employer-provided educational assistance (see chapter 10); and

- Any other nontaxable (tax-free) payments (other than gifts or inheritances) received as educational assistance.

Don't reduce the qualified education expenses by amounts paid with funds the student receives as:

- Payment for services, such as wages;
- A loan;
- A gift;
- An inheritance given to either the student or the individual making the withdrawal; or
- A withdrawal from personal savings (including savings from a qualified tuition program (QTP)).

If your IRA distribution is equal to or less than your AQEE, you aren't subject to the 10% additional tax.

Example 1. In 2023, a teacher (age 32) took a year off from teaching to attend graduate school full time. They paid $5,800 of qualified education expenses from the following sources.

Employer-provided educational assistance (tax free)	$5,000
Early distribution from IRA (taxable part is $500)	3,200

Before the teacher can determine if they must pay the 10% additional tax on their IRA distribution, they must reduce their total qualified education expenses.

Total qualified education expenses . .	$5,800
Minus: Tax-free educational assistance	− 5,000
Equals: AQEE	$ 800

Because the teacher’s AQEE ($800) is more than the taxable part of their IRA distribution ($500), they don't have to pay the 10% additional tax on any part of this distribution. However, they must include the $500 taxable earnings in their gross income subject to income tax.

Example 2. Assume the same facts as in *Example 1*, except that the teacher deducted some of the contributions to their IRA, so the taxable part of their early distribution is $1,000. This must be included in their income subject to income tax.

The taxable part of the teacher's IRA distribution ($1,000) is larger than their $800 AQEE. Therefore, they must pay the 10% additional tax on $200, the taxable part of their distribution ($1,000) that is more than their AQEE ($800). The teacher doesn't have to pay the 10% additional tax on the remaining $800 of their taxable distribution.

Reporting Early Distributions

By January 31, 2024, the payer of your IRA distribution should send you Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. The information on this form will help you determine how much of your distribution is taxable for income tax purposes and how much is subject to the 10% additional tax.

If you received an early distribution from your IRA, you must report the taxable part of the distribution on Form 1040, 1040-SR, or 1040-NR, line 4b. Then, if you qualify for an exception for qualified higher education expenses, you must file Form 5329 to show how much, if any, of your early distribution is subject to the 10% additional tax. See the instructions for Form 5329, Part I, for help in completing the form and entering the results on Schedule 2 (Form 1040), line 8.

There are many other situations in which Form 5329 is required. If, during 2023, you had other distributions from IRAs or qualified retirement plans, or have made excess contributions to certain tax-favored accounts, see the instructions for Schedule 2 (Form 1040), line 8, to determine if you must file Form 5329.

9.

Education Savings Bond Program

What's New

Modified adjusted gross income (MAGI) limits. For 2023, the amount of your education savings bond interest exclusion is gradually reduced (phased out) if your MAGI is between $91,850 and $106,850 ($137,800 and $167,800 if you file a joint return). You can't exclude any of the interest if your MAGI is $106,850 or more ($167,800 or more if you file a joint return).

Introduction

Generally, you must pay tax on the interest earned on U.S. savings bonds. If you don't include the interest in income in the years it is earned, you must include it in your income in the year in which you cash in the bonds.

However, when you cash in certain savings bonds under an education savings bond program, you may be able to exclude the interest from income.

Who Can Cash in Bonds Tax Free?

You may be able to cash in qualified U.S. savings bonds without having to include in your income some or all of the interest earned on the bonds if you meet the following conditions.

- You pay qualified education expenses for yourself, your spouse, or a dependent.
- Your MAGI is less than $106,850 ($167,800 if married filing jointly).
- Your filing status isn't married filing separately.

Qualified U.S. savings bonds. A qualified U.S. savings bond is a series EE bond issued after 1989 or a series I bond. The bond must be issued either in your name (as the sole owner) or in the name of both you and your spouse (as co-owners).

The owner must be at least 24 years old before the bond's issue date. The issue date is printed in the upper right corner of a paper bond and shown in TreasuryDirect for an electronic bond.

Qualified education expenses. These include the following items you pay for either yourself, your spouse, or a dependent.

1. Tuition and fees required to enroll at or attend an eligible educational institution. Qualified education expenses don't include expenses for room and board or for courses involving sports, games, or hobbies that aren't part of a degree or certificate-granting program.
2. Contributions to a qualified tuition program (QTP) (see *How Much Can You Contribute* in chapter 7).

3. Contributions to a Coverdell education savings account (ESA) (see *Contributions* in chapter 6).

Adjusted qualified education expenses (AQEE). You must reduce your qualified education expenses by all of the following tax-free benefits.

1. Tax-free part of scholarships and fellowship grants (see *Tax-Free Scholarships and Fellowship Grants* in chapter 1).
2. Expenses used to figure the tax-free portion of distributions from a Coverdell ESA (see *Qualified Education Expenses* in chapter 6).
3. Expenses used to figure the tax-free portion of distributions from a QTP (see *Qualified Education Expenses* in chapter 7).

4. Any tax-free payments (other than gifts or inheritances) received as educational assistance, such as:
   a. Veterans' educational assistance benefits (see *Veterans' Benefits* in chapter 1);
   b. Qualified tuition reductions (see *Qualified Tuition Reduction* in chapter 1); or
   c. Employer-provided educational assistance (see chapter 10).
5. Any expenses used in figuring the American opportunity and lifetime learning credits. See *What Expenses Qualify* in chapter 2 (American opportunity credit), and *What Expenses Qualify* in chapter 3 (lifetime learning credit), for more information.

Eligible educational institution. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education. Virtually all accredited public, non-profit, and proprietary (privately owned profit-making) postsecondary institutions meet this definition.

An eligible educational institution also includes certain educational institutions located outside the United States that are eligible to participate in a student aid program administered by the U.S. Department of Education.

TIP *The educational institution should be able to tell you if it is an eligible educational institution.*

Dependent. A person who qualifies as your dependent will be listed by name in the Dependents section of your Form 1040 or 1040-SR. See the Instructions for Form 1040.

Modified adjusted gross income (MAGI). For most taxpayers, MAGI is adjusted gross income (AGI) as figured on their federal income tax return without taking into account this interest exclusion. However, as discussed below, there may be other modifications.

Your MAGI is the AGI on line 11 of Form 1040 or 1040-SR figured without taking into account any savings bond interest exclusion and modified by adding back any:

1. Foreign earned income exclusion,
2. Foreign housing exclusion,
3. Foreign housing deduction,
4. Exclusion of income by bona fide residents of American Samoa,
5. Exclusion of income by bona fide residents of Puerto Rico,
6. Exclusion for adoption benefits received under an employer's adoption assistance program, and

7. Deduction for student loan interest.

Use the worksheet in the instructions for line 9 of Form 8815 to figure your MAGI. If you claim any of the exclusion or deduction items (1)–(6) listed above, add the amount of the exclusion or deduction to the amount on line 5 of the worksheet. Don't add in the deduction for (7) student loan interest, because line 4 of the worksheet already includes this amount. Enter the total on Form 8815, line 9, as your MAGI.

CAUTION *Because the deduction for interest expenses attributable to royalties and other investments is limited to your net investment income, you can't figure the deduction until you have figured this interest exclusion. Therefore, if you had interest expenses attributable to royalties and deductible on Schedule E (Form 1040), Supplemental Income and Loss, you must make a special computation of your deductible interest without regard to this* *exclusion to figure the net royalty income included in your MAGI. See Royalties included in modified AGI under Education Savings Bond Program in chapter 1 of Pub. 550.*

Figuring the Tax-Free Amount

If the total you receive when you cash in the bonds isn't more than the AQEE for the year, all of the interest on the bonds may be tax free. However, if the total you receive when you cash in the bonds is more than the adjusted expenses, only part of the interest may be tax free.

To determine the tax-free amount, multiply the interest part of the proceeds by a fraction. The numerator (top part) of the fraction is the AQEE you paid during the year. The denominator (bottom part) of the fraction is the total proceeds you received during the year.

Example. In February 2023, a married couple cashed a qualified series EE U.S.

savings bond. They received proceeds of $9,000, representing principal of $6,000 and interest of $3,000. In 2023, they paid $7,650 of their child's college tuition. They aren't claiming an American opportunity or lifetime learning credit for those expenses, and their child doesn't have any tax-free educational assistance. Their MAGI for 2023 was $90,000.

$$\begin{array}{c} \$3{,}000 \\ \text{interest} \end{array} \times \frac{\$7{,}650 \text{ AQEE}}{\$9{,}000 \text{ proceeds}} = \begin{array}{c} \$2{,}550 \\ \text{tax-free interest} \end{array}$$

They can exclude $2,550 of interest in 2023. They must pay tax on the remaining $450 ($3,000 − $2,550) of interest.

Effect of the Amount of Your Income on the Amount of Your Exclusion

The amount of your interest exclusion is gradually reduced (phased out) if your MAGI is between $91,850 and $106,850 (between $137,800 and $167,800 if your filing status is married filing jointly). You can’t exclude any of the interest if your MAGI is equal to or more than the upper limit.

The phaseout, if any, is figured for you when you fill out Form 8815.

Claiming the Exclusion

Use Form 8815 to figure your education savings bond interest exclusion. Enter your exclusion on line 3 of Schedule B (Form 1040), Interest and Ordinary Dividends. Attach Form 8815 to your tax return.

10.

Employer-Provided Educational Assistance

Reminder

Educational assistance benefits. Employer-provided educational assistance benefits include payments made after March 27, 2020, and before January 1, 2026, for principal or interest on any qualified education loan you incurred for your education. See *Educational assistance benefits*.

Introduction

If you receive educational assistance benefits from your employer under an educational assistance program, you can exclude up to $5,250 of those benefits each year. This means your employer shouldn’t include those benefits with your wages, tips, and other compensation shown in box 1 of your Form

W-2. This also means that you don’t have to include the benefits on your income tax return.

You can’t use any of the tax-free education expenses paid for by your employer as the basis for any other deduction or credit, including the American opportunity credit and lifetime learning credit.

Educational assistance program. To qualify as an educational assistance program, the plan must be written and must meet certain other requirements. Your employer can tell you whether there is a qualified program where you work.

Educational assistance benefits. Tax-free educational assistance benefits include payments for tuition, fees and similar expenses, books, supplies, and equipment. Education generally includes any form of instruction or training that improves or develops your capabilities. The payments don't have to be for work-related courses or courses that are part of a degree program.

Tax-free educational assistance benefits also include payments made after March 27, 2020, and before January 1, 2026, whether paid to the employee or to a lender, of principal or interest on any qualified education loan (defined later) incurred by the employee for education of the employee.

Educational assistance benefits don't include payments for the following items.

1. Meals, lodging, or transportation.
2. Tools or supplies (other than textbooks) that you can keep after completing the course of instruction.
3. Courses involving sports, games, or hobbies unless they:
    a. Have a reasonable relationship to the business of your employer, or

b. Are required as part of a degree program.

Qualified education loan. A qualified education loan is generally the same as a qualified student loan. See *Qualified Student Loan* in chapter 4. However, as discussed earlier, the loan must be incurred by the employee for education of the employee.

Benefits over $5,250. If your employer pays more than $5,250 in educational assistance benefits for you during the year, you must generally pay tax on the amount over $5,250. Your employer should include in your wages (box 1 of Form W-2) the amount that you must include in income.

Working condition fringe benefit. However, if the benefits over $5,250 also qualify as a working condition fringe benefit, your employer doesn't have to include them in your wages. A working condition fringe benefit is a benefit that, had you paid for it, would be allowable as a business expense deduction. For more information on working condition fringe benefits, see *Working Condition Benefits* in chapter 2 of Pub. 15-B, Employer's Tax Guide to Fringe Benefits.

11.

Business Deduction for Work-Related Education

What's New

Standard mileage rate. Generally, if you claim a business deduction for work-related education and you drive your car to and from school, the amount you can deduct for miles driven from January 1, 2023, through December 31, 2023, is 65.5 cents a mile. For more information, see *Transportation Expenses* under *What Expenses Can Be Deducted*.

Reminder

Miscellaneous itemized deductions. For tax years beginning after 2017 and before 2026, you no longer deduct work-related education expenses as a miscellaneous itemized deduction subject to a 2%-of-adjusted-gross-income floor.

Introduction

This chapter discusses work-related education expenses you may be able to deduct as business expenses.

To claim such a deduction, you must:

- File Schedule C (Form 1040), Profit or Loss From Business, or Schedule F (Form 1040), Profit or Loss From Farming, if you are self-employed;
- File Form 2106, Employee Business Expenses, if you are an Armed Forces reservist, a qualified performing artist, a fee-based state or local government official, or an individual with a disability claiming impairment-related education expenses;
- Itemize your deductions on Schedule A (Form 1040) or Schedule A (Form

1040NR), if you are an individual with a disability claiming impairment-related education expenses; and

- Have expenses for education that meet the requirements discussed under *Qualifying Work-Related Education*, later.

What is the tax benefit of taking a business deduction for work-related education? If you are self-employed, you deduct your expenses for qualifying work-related education directly from your self-employment income. This reduces the amount of your income subject to both income tax and self-employment tax.

If you are an Armed Forces reservist, qualified performing artist, or a fee-based state or local government official, you deduct your expenses for qualifying work-related education directly from your income as you figure your adjusted gross income.

If you are an individual with a disability and can itemize your deductions, you deduct your impairment-related education expenses as an itemized deduction. An itemized deduction reduces the amount of your income subject to tax.

Your work-related education expenses may also qualify you for other tax benefits, such as the American opportunity (see chapter 2) and lifetime learning (see chapter 3) credits. You may qualify for these other benefits even if you don't meet the requirements listed above.

Also, your work-related education expenses may qualify you to claim more than one tax benefit. Generally, you may claim any number of benefits as long as you use different expenses to figure each one.

Qualifying Work-Related Education

As discussed earlier, self-employed individuals, Armed Forces reservists, certain artists, and certain government officials can deduct the costs of qualifying work-related education as business expenses. Individuals with a disability can deduct impairment expenses related to this education as an itemized deduction. This is education that meets at least one of the following two tests.

- The education is required by your employer or the law to keep your present salary, status, or job. The required education must serve a bona fide business purpose of your employer.
- The education maintains or improves skills needed in your present work.

However, even if the education meets one or both of the above tests, it isn't qualifying work-related education if it:

- Is needed to meet the minimum educational requirements of your present trade or business, or
- Is part of a program of study that will qualify you for a new trade or business.

You can deduct the costs of qualifying work-related education as a business expense even if the education could lead to a degree.

Use Figure 11-1 as a quick check to see if your education qualifies.

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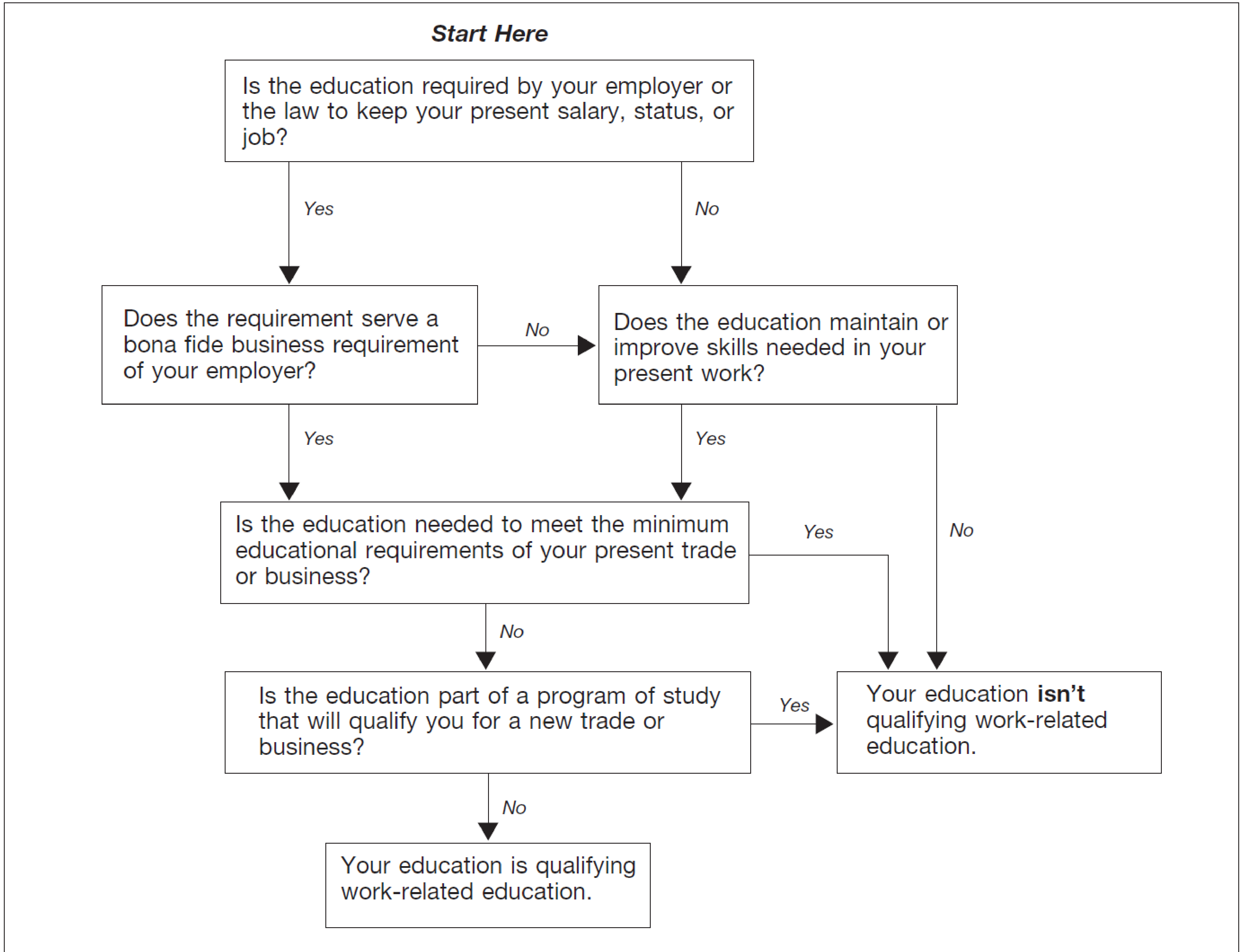
Figure 11-1. Does Your Work-Related Education Qualify?



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Education Required by Employer or by Law

Once you have met the minimum educational requirements for your job, your employer or the law may require you to get more education. This additional education is qualifying work-related education if all three of the following requirements are met.

- It is required for you to keep your present salary, status, or job.
- The requirement serves a bona fide business purpose of your employer.
- The education isn't part of a program that will qualify you for a new trade or business.

When you get more education than your employer or the law requires, the additional education can be qualifying work-related education only if it maintains or improves skills required in your present work. See

Education To Maintain or Improve Skills, later.

Example. You are a teacher who has satisfied the minimum requirements for teaching. Your employer requires you to take an additional college course each year to keep your teaching job. If the courses won't qualify you for a new trade or business, they are qualifying work-related education even if you eventually receive a master's degree and an increase in salary because of this extra education.

Education To Maintain or Improve Skills

If your education isn't required by your employer or the law, it can be qualifying work-related education only if it maintains or improves skills needed in your present work. This could include refresher courses, courses on current developments, and academic or vocational courses.

Example. You repair televisions, radios, and stereo systems for XYZ Store. To keep up with the latest changes, you take special courses in radio and stereo service. These courses maintain and improve skills required in your work.

Maintaining skills vs. qualifying for new job. Education to maintain or improve skills needed in your present work isn't qualifying education if it will also qualify you for a new trade or business.

Education during temporary absence. If you stop working for a year or less in order to get education to maintain or improve skills needed in your present work and then return to the same general type of work, your absence is considered temporary. Education that you get during a temporary absence is qualifying work-related education if it maintains or improves skills needed in your present work.

Example. You quit your biology research job to become a fulltime biology graduate student for 1 year. If you return to work in biology research after completing the courses, the education is related to your present work even if you don't go back to work with the same employer.

Education during indefinite absence. If you stop work for more than a year, your absence from your job is considered indefinite. Education during an indefinite absence, even if it maintains or improves skills needed in the work from which you are absent, is considered to qualify you for a new trade or business. Therefore, it isn't qualifying work-related education.

Education To Meet Minimum Requirements

Education you need to meet the minimum educational requirements for your present trade or business isn't qualifying work-related education. The minimum educational requirements are determined by:

- Laws and regulations;
- Standards of your profession, trade, or business; and
- Your employer.

Once you have met the minimum educational requirements that were in effect when you were hired, you don't have to meet any new minimum educational requirements. This means that if the minimum requirements change after you were hired, any education you need to meet the new requirements can be qualifying education.

CAUTION *You haven't necessarily met the minimum educational requirements of your trade or business sim-ply because you are already doing the work.*

Example 1. You are a full-time engineering student. Although you haven't received your degree or certification, you work part time as an engineer for a firm that will employ you as a full-time engineer after you finish college. Although your college engineering courses improve your skills in your present job, they are also needed to meet the minimum job requirements for a full-time engineer. The education isn't qualifying work-related education.

Example 2. You are an accountant and you have met the minimum educational requirements of your employer. Your employer later changes the minimum educational requirements and requires you to take college courses to keep your job. These additional courses can be qualifying work-related education because you have already satisfied the minimum requirements that were in effect when you were hired.

Requirements for Teachers

States or school districts usually set the minimum educational requirements for teachers. The requirement is the college degree or the minimum number of college hours usually required of a person hired for that position.

If there are no requirements, you will have met the minimum educational requirements when you become a faculty member. The determination of whether you are a faculty member of an educational institution must be made on the basis of the particular practices of the institution. You will generally be considered a faculty member when one or more of the following occurs.

- You have tenure.
- Your years of service count toward obtaining tenure.
- You have a vote in faculty decisions.
- Your school makes contributions for you to a retirement plan other than social security or a similar program.

Example 1. The law in your state requires beginning secondary school teachers to have a bachelor's degree, including 10 professional education courses. In addition, to keep the job, a teacher must complete a fifth year of training within 10 years from the date of hire. If the employing school certifies to the state Department of Education that qualified teachers can't be found, the school can hire persons with only 3 years of college. However, to keep their jobs, these teachers must get a bachelor's degree and the required professional education courses within 3 years.

Under these facts, the bachelor's degree, whether or not it includes the 10 professional education courses, is considered the minimum educational requirement for qualification as a teacher in your state.

If you have all the required education except the fifth year, you have met the minimum educational requirements. The fifth year of training is qualifying work-related education unless it is part of a program of study that will qualify you for a new trade or business.

Example 2. Assume the same facts as in *Example 1*, except that you have a bachelor's degree and only six professional education courses. The additional four education courses can be qualifying work-related education. Although you don't have all the required courses, you have already met the minimum educational requirements.

Example 3. Assume the same facts as in *Example 1*, except that you are hired with only 3 years of college. The courses you take that lead to a bachelor's degree (including those in education) aren't qualifying work-related education. They are needed to meet the minimum educational requirements for employment as a teacher.

Example 4. You have a bachelor's degree and you work as a temporary instructor at a university. At the same time, you take graduate courses toward an advanced degree. The rules of the university state that you can become a faculty member only if you get a graduate degree. Also, you can keep your job as an instructor only as long as you show satisfactory progress toward getting this degree. You haven't met the minimum educational requirements to qualify you as a faculty member. The graduate courses aren't qualifying work-related education.

Certification in a new state. Once you have met the minimum educational requirements for teachers for your state, you are considered to have met the minimum educational requirements in all states. This is true even if you must get additional education to be certified in another state. Any additional education you need is qualifying work-related education. You have already met the minimum requirements for teaching. Teaching in another state isn't a new trade or business.

Example. You hold a permanent teaching certificate in State A and are employed as a teacher in that state for several years. You move to State B and are promptly hired as a teacher. You are required, however, to complete certain prescribed courses to get a permanent teaching certificate in State B. These additional courses are qualifying work-related education because the teaching position in State B involves the same general kind of work for which you were qualified in State A.

Education That Qualifies You for a New Trade or Business

Education that is part of a program of study that will qualify you for a new trade or business isn't qualifying work-related education. This is true even if you don't plan to enter that trade or business.

If you are an employee, a change of duties that involves the same general kind of work isn't a new trade or business.

Example 1. You are an accountant. Your employer requires you to get a law degree at your own expense. You register at a law school for the regular curriculum that leads to a law degree. Even if you don't intend to become a lawyer, the education isn't qualifying because the law degree will qualify you for a new trade or business.

Example 2. You are a general practitioner of medicine. You take a 2-week course to review developments in several specialized fields of medicine. The course doesn't qualify you for a new profession. It is qualifying work-related education because it maintains or improves skills required in your present profession.

Example 3. While working in the private practice of psychiatry, you enter a program to study and train at an accredited psychoanalytic institute. The program will lead to qualifying you to practice psychoanalysis. The psychoanalytic training doesn't qualify you for a new profession. It is qualifying work-related education because it maintains or improves skills required in your present profession.

Bar or CPA Review Course

Review courses to prepare for the bar examination or the certified public accountant (CPA) examination aren't qualifying work-related education. They are part of a program of study that can qualify you for a new profession.

Teaching and Related Duties

All teaching and related duties are considered the same general kind of work. A change in duties in any of the following ways isn't considered a change to a new business.

- Elementary school teacher to secondary school teacher.

- Teacher of one subject, such as biology, to teacher of another subject, such as art.
- Classroom teacher to guidance counselor.
- Classroom teacher to school administrator.

What Expenses Can Be Deducted?

If your education meets the requirements described earlier under *Qualifying Work-Related Education*, you may be able to deduct your education expenses as business expenses. If you aren't self-employed, you can deduct business expenses only if you are an Armed Forces reservist, qualified performing artist, fee-based state or local government official, or, for impairment-related expenses, an individual with a disability.

You can't deduct expenses related to tax-exempt and excluded income.

Deductible expenses. The following education expenses can be deducted.

- Tuition, books, supplies, lab fees, and similar items.
- Certain transportation and travel costs.
- Other education expenses, such as costs of research and typing when writing a paper as part of an educational program.

Nondeductible expenses. You can't deduct personal or capital expenses. For example, you can't deduct the dollar value of vacation time or annual leave you take to attend classes. This amount is a personal expense.

Unclaimed reimbursement. If you don't claim reimbursement that you are entitled to receive from your employer, you can't deduct the expenses that apply to that unclaimed reimbursement.

Example. Your employer agrees to pay your education expenses if you file a voucher showing your expenses. You don't file a voucher and you don't get reimbursed.

Because you didn't file a voucher, you can't deduct the expenses on your tax return.

Transportation Expenses

If your education qualifies, you can deduct local transportation costs of going directly from work to school. If you are regularly employed and go to school on a temporary basis, you can also deduct the costs of returning from school to home.

Temporary basis. You go to school on a temporary basis if either of the following situations applies to you.

1. Your attendance at school is realistically expected to last 1 year or less and does indeed last for 1 year or less.

2. Initially, your attendance at school is realistically expected to last 1 year or less, but at a later date your attendance is reasonably expected to

last more than 1 year. Your attendance is temporary up to the date you determine it will last more than 1 year.

If you are in either situation (1) or (2), your attendance isn't temporary if facts and circumstances indicate otherwise.

Attendance not on a temporary basis. You don't go to school on a temporary basis if either of the following situations applies to you.

1. Your attendance at school is realistically expected to last more than 1 year. It doesn't matter how long you actually attend.
2. Initially, your attendance at school is realistically expected to last 1 year or less, but at a later date your attendance is reasonably expected to last more than 1 year. Your attendance isn't temporary after the date you determine it will last more than 1 year.

Deductible Transportation Expenses

If you are regularly employed and go directly from home to school on a temporary basis, you can deduct the roundtrip costs of transportation between your home and school. This is true regardless of the location of the school, the distance traveled, or whether you attend school on nonwork days.

Transportation expenses include the actual costs of bus, subway, cab, or other fares, as well as the costs of using your car. Transportation expenses don't include amounts spent for travel, meals, or lodging while you are away from home overnight.

Example 1. You regularly work in a nearby town, and go directly from work to home. You also attend school every work night for 3 months to take a course that improves your job skills. Since you are attending school on a temporary basis, you can deduct your daily roundtrip transportation expenses in going between home and school. This is true regardless of the distance traveled.

Example 2. Assume the same facts as in *Example 1*, except that on certain nights you go directly from work to school and then home. You can deduct your transportation expenses from your regular work site to school and then home.

Example 3. Assume the same facts as in *Example 1*, except that you attend the school for 9 months on Saturdays, nonwork days. Since you are attending school on a temporary basis, you can deduct your roundtrip transportation expenses in going between home and school.

Example 4. Assume the same facts as in *Example 1*, except that you attend classes twice a week for 15 months. Since your attendance in school isn't considered temporary, you can't deduct your transportation expenses in going between home and school. If you go directly from work to school, you can deduct the one-way transportation expenses of going from work to school. If you go from work to home to school and return home, your transportation expenses can't be more than if you had gone directly from work to school.

Using your car. If you use your car (whether you own or lease it) for transportation to school, you can deduct your actual expenses or use the standard mileage rate to figure the amount you can deduct. The standard mileage rate for miles driven from January 1, 2023, through December 31, 2023, is 65.5 cents a mile. Whichever method you use, you can also deduct parking fees and tolls. See Pub. 463, chapter 4, for information on deducting your actual expenses of using a car.

Travel Expenses

You can deduct expenses for travel, meals (see *50% limit on meals*, later), and lodging if you travel overnight mainly to obtain qualifying work-related education.

Travel expenses for qualifying work-related education are treated the same as travel expenses for other employee business purposes. For more information, see chapter 1 of Pub. 463.

CAUTION *You can't deduct expenses for personal activities such as sightseeing, visiting, or entertaining.*

Mainly personal travel. If your travel away from home is mainly personal, you can't deduct all of your expenses for travel, meals, and lodging. You can deduct only your expenses for lodging and meals (see *50% limit on meals*, later) during the time you attend the qualified educational activities.

Whether a trip's purpose is mainly personal or educational depends upon the facts and circumstances. An important factor is the comparison of time spent on personal activities with time spent on educational activities. If you spend more time on personal activities, the trip is considered mainly educational only if you can show a substantial nonpersonal reason for traveling to a particular location.

Example 1. You work in Newark, New Jersey. You traveled to Chicago to take a deductible 1-week course at the request of your employer. Your main reason for going to Chicago was to take the course.

While there, you took a sightseeing trip, entertained some friends, and took a side trip to Pleasantville for a day.

Since the trip was mainly for business, you can deduct your roundtrip airfare to Chicago. You can't deduct your transportation expenses of going to Pleasantville. You can deduct only the meals (see *50% limit on meals*, later) and lodging connected with your educational activities.

Example 2. You work in Boston. You went to a university in Michigan to take a course for work. The course is qualifying work-related education.

You took one course, which is one-fourth of a full course load of study. You spent the rest of the time on personal activities. Your reasons for taking the course in Michigan were all personal.

Your trip is mainly personal because three-fourths of your time is considered personal time. You can't deduct the cost of your roundtrip train ticket to Michigan. You can deduct one-fourth of the meals (see *50% limit on meals*, later) and lodging costs for the time you attended the university.

Example 3. You work in Nashville and recently traveled to California to take a 2-week seminar. The seminar is qualifying work-related education.

While there, you spent an extra 8 weeks on personal activities. The facts, including the extra 8-week stay, show that your main purpose was to take a vacation.

You can't deduct your roundtrip airfare or your meals and lodging for the 8 weeks. You can deduct only your expenses for meals (see *50% limit on meals*, later) and lodging for the 2 weeks you attended the seminar.

Cruises and conventions. Certain cruises and conventions offer seminars or courses as part of their itinerary. Even if the seminars or courses are work related, your deduction for travel may be limited. This applies to:

- Travel by ocean liner, cruise ship, or other form of luxury water transportation; and
- Conventions outside the North American area.

For a discussion of the limits on travel expense deductions that apply to cruises and conventions, see *Luxury Water Travel* and *Conventions* in chapter 1 of Pub. 463.

50% limit on meals. You can deduct only 50% of the cost of your meals while traveling away from home to obtain qualifying work-related education. If you were reimbursed for the meals, see *How To Treat Reimbursements*, later.

Qualified performing artists and fee-based state or local government officials must use Form 2106 to apply the 50% limit.

Travel as Education

You can't deduct the cost of travel as a form of education even if it is directly related to your duties in your work or business.

Example. You are a French language teacher. While on sabbatical leave granted for travel, you traveled through France to improve your knowledge of the French language. You chose your itinerary and most of your activities to improve your French language skills. You can't deduct your travel expenses as education expenses. This is true even if you spent most of your time learning French by visiting French schools and families, attending movies or plays, and engaging in similar activities.

No Double Benefit Allowed

You can't do the following.

- Deduct work-related education expenses as business expenses if you benefit from these expenses under any other provision of the law.
- Deduct work-related education expenses paid with tax-free scholarship, grant, or employer-provided educational assistance.

Adjustments to Qualifying Work-Related Education Expenses

If you pay qualifying work-related education expenses with certain tax-free funds, you can't claim a deduction for those amounts.

You must reduce the qualifying expenses by the amount of such expenses allocable to the tax-free educational assistance.

Tax-free educational assistance. This includes:

- The tax-free part of scholarships and fellowship grants (see *Tax-Free Scholarships and Fellowship Grants* in chapter 1);
- The tax-free part of Pell grants (see *Pell Grants and Other Title IV Need-Based Education Grants* in chapter 1);
- Employer-provided educational assistance (see chapter 10);
- Veterans' educational assistance (see *Veterans' Benefits* in chapter 1); and
- Any other nontaxable (tax-free) payments (other than gifts or inheritances) received as educational assistance.

Amounts that don't reduce qualifying work-related education expenses. Don't reduce the qualifying work-related education expenses by amounts paid with funds the student receives as:

- Payment for services, such as wages;
- A loan;
- A gift;
- An inheritance; or
- A withdrawal from the student's personal savings.

Also, don't reduce the qualifying work-related education expenses by any scholarship or fellowship grant reported as income on the student's return or any scholarship that, by its terms, can't be applied to qualifying work-related education expenses.