2026 · IS THE DISTRIBUTION FROM MY 529 PLAN SUBJECT TO FEDERAL INCOME TAX?

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

- **Yes** → Add up all Qualified Education Expenses for the year.
- **Not sure.** Look below to see if the expense qualifies.
  - Tuition and fees. This is a qualified expense for higher education, and up to $20k/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) required for enrollment or attendance. This applies to both K–12 education (up to the $20k/year limit, including tuition and fees) and college education.
  - Recognized postsecondary credentials and apprenticeship programs registered with the DOL. Includes required fees, books, supplies, and equipment.
  - Student loan repayment. Up to $10k lifetime limit per person. An additional $10k may be distributed to each of the beneficiary's siblings.
- **No** → Did the beneficiary pass away, become terminally ill or have a long-term disability?
  - 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 $20k/year can be rolled over to a 529A ABLE account without penalty.

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 $4k).
  - **No** → You have arrived at Adjusted Qualified Education Expense (AQEE).
- **Yes** → Reduce QEE by expenses for which credit was claimed (up to $10k).

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.

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

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