

## 529 Plans: Qualified and Nonqualified Expenses

Presented by *Gottfried & Somberg Wealth Management, LLC*

You've put in the hard work of saving for college, and now it's time to start using those 529 plan assets to help with a family member's education-related costs. But before you begin withdrawing those funds, it's important to understand the difference between qualified and nonqualified expenses.

The charts below provide an overview of some of the most common qualified and nonqualified expenses.

### Qualified Expenses

Expense	Requirements	Important Considerations
<b>Tuition and fees</b>	<ul style="list-style-type: none"> <li>College must be accredited and eligible for the U.S. Department of Education's student aid program</li> <li>K-12 eligible (eligibility varies by state)</li> <li>Registered apprenticeship program</li> </ul>	<ul style="list-style-type: none"> <li>Limited to \$10,000 per year for K-12</li> <li>Some foreign institutions qualify</li> </ul>
<b>Books, supplies, and equipment</b>	<ul style="list-style-type: none"> <li>College courses only</li> <li>Must be required for the course</li> <li>Required equipment, including tools for apprenticeship programs</li> </ul>	<ul style="list-style-type: none"> <li>Items may be purchased from anywhere (e.g., Amazon)</li> <li>Keep evidence of the requirement (e.g., course syllabus)</li> </ul>
<b>Special needs services</b>	<ul style="list-style-type: none"> <li>College courses only</li> <li>Must show a connection to enrollment or attendance</li> </ul>	
<b>Room and board</b>	<ul style="list-style-type: none"> <li>College courses only</li> <li>The maximum amount is the greater of either 1) the actual charge for residence in school-operated housing or 2) the annual "financial aid cost of attendance" room and board amount for that school</li> </ul>	<ul style="list-style-type: none"> <li>Must be enrolled at least half-time (credit hours defined by the school)</li> <li>For off-campus housing, contact the school's financial aid office for applicable cost of attendance amounts</li> </ul>
<b>Computers, computer hardware, software, and internet access</b>	<ul style="list-style-type: none"> <li>College courses only</li> <li>Must be used primarily by the 529 beneficiary and during years of enrollment</li> </ul>	<ul style="list-style-type: none"> <li>Software should be predominantly educational in nature</li> </ul>
<b>Repay student loan debt</b>	<ul style="list-style-type: none"> <li>Principal and interest payments toward qualified education loans of the 529 plan beneficiary or siblings of the plan beneficiary</li> </ul>	<ul style="list-style-type: none"> <li>Lifetime limit of \$10,000 for the plan beneficiary and an additional \$10,000 per sibling of the plan beneficiary</li> <li>Interest that is paid with 529 funds will not be eligible for student loan interest deduction</li> </ul>

<b>529 Funds to Roth IRA</b>	Beginning in 2024, SECURE 2.0 provides ability to roll unused 529 plans into a Roth IRA if eligibility rules and limits are met <ul style="list-style-type: none"> <li>• The recipient Roth IRA must be in the name of the 529 beneficiary</li> <li>• Roth IRA contribution limits and rules still apply, with the exception that the modified adjusted gross income limit is not applicable</li> <li>• The beneficiary must also have earned income to support the Roth contribution</li> </ul>	<ul style="list-style-type: none"> <li>• Rollovers are subject to a \$35,000 lifetime maximum</li> <li>• The 529 plan must have been open for more than 15 years</li> <li>• Rollover amounts cannot include contributions to the Roth IRA (or any earnings on those contributions) within five years of the rollover</li> </ul>
------------------------------	--	---

### Nonqualified Expenses

Expense	Important Considerations
<b>Transportation and travel costs</b>	<ul style="list-style-type: none"> <li>• Often a concern for out-of-state students</li> <li>• Even if for travel to and from campus during holiday times, no travel costs qualify</li> </ul>
<b>Health insurance</b>	<ul style="list-style-type: none"> <li>• Not qualified, even for a health plan provided by the student's school</li> </ul>
<b>Extracurricular activity fees</b>	<ul style="list-style-type: none"> <li>• Only tuition costs and fees are qualified; additional activity fees are not</li> </ul>
<b>Student loans</b>	<ul style="list-style-type: none"> <li>• Student loan payments in excess of current qualified expense limits</li> </ul>
<b>Application and testing fees</b>	<ul style="list-style-type: none"> <li>• Preparatory fees are not qualified</li> <li>• 529 distributions are limited to tuition and fees associated with current enrollment</li> </ul>

**Please note:** Just because an expense is nonqualified, it doesn't mean the 529 plan funds cannot be considered a source of payment. The main consequence of paying nonqualified expenses from the 529 plan is that the gains portion of that distribution will be taxed, and it could be assessed a 10 percent penalty.

For more information on 529 plans (referred to as "Qualified Tuition Programs") and for examples of tax and coordination calculations, see the [Qualified Tuition Programs section](#) of IRS Publication 970.

*This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.*

Gottfried & Somberg Wealth Management, LLC  
 340 Hebron Avenue | Glastonbury, CT 06033  
 860.430.9104 | [www.gottfriedsomberg.com](http://www.gottfriedsomberg.com)