



DEPARTMENT OF THE ARMY
UNITED STATES MILITARY ACADEMY
OFFICE OF THE STAFF JUDGE ADVOCATE
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MAJA-LA

22 January 2020

MEMORANDUM FOR Parent(s) and Guardian(s) of the United States Corps of Cadets

SUBJECT: Tax Preparation Issues that may Impact Your and Your Cadet's Income Tax Return

1. **PURPOSE:** To address Cadet income tax preparation issues with the parent(s)/guardian(s) of the United States Corps of Cadets.
2. **BACKGROUND:** The Cadets will soon be receiving important documents regarding their taxes for the 2019 tax year. For many, this may be the first time they need to prepare a tax return. Because your son or daughter may need to discuss the issues below with you, I'd like to take a moment and identify some of the issues that have an impact on a Cadet's income tax return.
3. **DEPENDENT EXEMPTION/PERSONAL EXEMPTION:** Each year, the IRS rejects several first year (plebe) Cadets' tax returns. This is the result of both the plebe and his/her parents or guardians claiming the same personal exemption. Many parents or guardians believe they can continue to claim their son or daughter while they are a full-time student. However, being a full-time student is only one of the five tests that must be met in order for your child to be a "qualifying child" for tax purposes. Most importantly, in order to claim a dependent, the taxpayer must be able to show that he/she provided more than half of the dependent's support for the tax year. After totaling cadet pay, food, education, and room and board, the Army provides your Cadet with more than \$40,000. The exact amount will be circulated shortly. In most circumstances, your financial support does not exceed this amount. Should you have further questions regarding this matter, you may wish to consult independent legal counsel, IRS Publication 17, and/or the Internal Revenue Service. The IRS has eliminated the deduction for personal exemptions for 2019, but the Cadet will be taxed differently if they are claimed as a dependent on another's tax return.
4. **CUSTODIAL ACCOUNTS ESTABLISHED UNDER THE UNIFORMED GIFT TO MINORS ACT:** Some of our Cadets are fortunate enough that parents, guardians, or other family members established savings accounts for them when they were young. The money may be invested in bank accounts, CDs, stocks, mutual funds, etc. These accounts generate taxable income that your son or daughter must report on his or her tax return. It is not uncommon for Cadets to be unaware that these accounts exist and count towards their taxable income. If your son or daughter has such an account, please ensure they have all relevant statements and documents in order to accurately compute their tax return.
5. **PAYMENTS FROM QUALIFIED EDUCATION PROGRAMS UNDER SECTIONS 529 AND 530 (AND COVERDELL ESAS):** Again, some of our Cadets are fortunate enough that parents, guardians or other family members established college funds for them when they were young. If there was a distribution from the plan in 2019, your child will receive a Form 1099Q. Your son or daughter must report this income on their 2019 tax return. Additionally, they will need to know the breakdown of how much represents principal invested in the plan vs. earnings of the

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plan. The distribution of amounts contributed to the plan is not taxable. Only the income earned is taxable.

6. **EDUCATION CREDITS:** Each year Cadets question why they are not allowed to claim the American Opportunity Credit, Lifetime Learning Credit, or the Tuition and Fees deduction for books and other education-related expenses incurred while attending USMA.

In order to legally claim any of these education tax benefits, you must have "qualified education expenses" from an "eligible educational institution." The IRS' definition of an "eligible educational institution" is generally any accredited public, nonprofit, or proprietary (private) college, university, vocational school, or other postsecondary institution eligible to participate in a student aid program administered by the Department of Education. USMA does not accept any federal financial aid and is ineligible to participate in a student aid program under the Department of Education. Rather, USMA and the other military academies fall under the Department of Defense and are not within the IRS' definition of eligible educational institution.

If your son or daughter attended an "eligible educational institution" prior to or in conjunction with their attendance at USMA, those expenses may be qualified for the above credits or deductions. Eligible educational institutions are required to prepare IRS Form 1098-T, Tuition Statement. The educational institution your child attended will send a copy of this form to the student and to the IRS. The United States Military Academy is not an eligible educational institution, so they will not be filing this form. The IRS is now matching Form 1098-Ts filed with them with educational credits claimed on individual income tax returns.

7. **CONCLUSION:** Thank you for your attention to this matter. If you have questions regarding your tax filing this year, please consult with your tax professional and/or the Internal Revenue Service. Your Cadet is always welcome to seek legal assistance at the West Point Legal Assistance Office if they have tax preparation questions or concerns.



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