



# 2026 Tax and financial planning tips: Education costs



Education is one of the most significant investments you can make for your child's future. With the rising costs of tuition and other expenses, it's essential to have a solid plan in place. This guide offers valuable insights and practical tips to help you navigate the financial and tax aspects of education planning

Whether supporting a child in kindergarten, high school, college or a professional credentialing program, families now have more ways than ever to build a solid financial foundation for their learners.

# Education savings plans

Saving for future education costs can help parents fund their child's education through federal and state-sponsored plans or tax-advantaged income exclusions.



**Section 529 plans** — 529 savings plans allow for annual tax-free distributions per beneficiary (regardless of the number of contributing plans) for qualifying expenses. These plans can fund the educational costs of students in grades K–12 who are enrolled in religious and other private schools. However, distributions for grades K–12 cannot exceed \$10,000 per beneficiary. Another qualifying expense for 529 distributions is up to \$10,000 can be used to pay off student loans per borrower.

The SECURE 2.0 Act allows certain unused 529 plan funds may be rolled over tax and penalty free into a Roth IRA for the same beneficiary. To qualify, the 529 account must have been open at least 15 years, and transfers are subject to annual IRA limits and a \$35,000 lifetime cap. This tax free rollover offers families a valuable new way to make the most of their education savings.

Note: The IRS treats contributions to 529 plans as gifts for tax purposes, but they're eligible for the annual gift tax exclusion.

H.R. 1, P.L. 119-21, the law known as the One Big Beautiful Bill Act (OBBBA), expands 529 savings plans for tax years beginning after Dec. 31, 2025, to include more K–12 and homeschool expenses, and postsecondary credentialing expenses. In particular, CPA credentialing would also be allowed (including exam expenses).

**Trump Accounts** — Established under H.R. 1, these new tax-advantaged savings accounts are designed to help families build financial security for minors.

The program is scheduled to launch mid-2026, with contributions starting July 4, 2026. It allows one funded account per child under 18 with a valid SSN. Children born between 2025 and 2028 can

receive a \$1,000 government starter deposit when the account is opened, and additional contributions may come from employers (up to \$2,500), governments or nonprofits, and individuals (up to \$5,000 annually per child), with limits indexed for inflation after 2027.

**Prepaid tuition plans** — Some states offer prepaid tuition plans that lock in future tuition costs at current rates. Some plans have residency requirements.

**Coverdell education savings account (ESA)** — Like 529 plans, Coverdell ESAs can help pay for education costs. They can also help pay for school expenses such as tutoring, uniforms and books at K–12 schools. The income limit for making a maximum contribution stands at \$220,000 for married couples filing joint tax returns, and individuals \$110,000. The total amount of contributions to these plans cannot exceed \$2,000 per year per beneficiary.

**United States savings bonds** — Individuals who purchase U.S. savings bonds for higher-education costs may exclude interest earned on these bonds up to the cost of the qualifying education expenses. The phaseout for this exclusion begins after a taxpayer's modified adjusted gross income (MAGI) is between \$99,500 and \$116,800 (between \$152,650 and \$182,650 if your filing status is married filing jointly). This exclusion is not available for married taxpayers who file separately.

## Education costs

Evaluate the costs associated with different types of institutions (private vs. public, for example), when deciding how much you need to save.

# Exclusions and deductions from income

Some income used for education expenses can qualify for an exclusion. Other education expenses could be eligible for a deduction or credit.

## Student loan interest deduction



Some individuals may deduct up to

**\$2,500** on qualified student loan interest paid during the year on qualified education. Interest paid by your employer is not deductible.

Phase out for 2026 starts at modified adjusted gross incomes over

**\$85,000** (\$175,000 for married filing jointly). Married individuals who file separately may not claim the deduction.

### Employer-provided education assistance —

Employees who work for a company that has a qualified educational assistance program may exclude up to \$5,250 per year in education assistance as a tax-free benefit if these funds are used for qualified expenses.

H.R. 1 makes permanent the exclusion, which was set to expire after 2025. The maximum exclusion for all educational assistance plans (currently \$5,250) would be adjusted for inflation after 2026.

**Student loan debt cancellations** — Cancelled debt generally becomes taxable income to an individual. In certain circumstances, you may be able to exclude this amount from gross income.

**Student loan repayment assistance** — Student loan repayment assistance made by an employer on behalf of their employee is tax-free to the recipient in some cases.

## Timing of education costs

Determine the timing of when the costs will occur, and be sure to consider inflation (college expenses have historically run at about two times the general inflation rate).

# Miscellaneous tips

Some students have special considerations complicating their tax situation.

## American opportunity tax credit (AOTC) –

Annually, individuals may receive up to a \$2,500 credit during the first four years of post-secondary education for an eligible student. The credit is based on qualified tuition and related expenses paid during the tax year. If the credit brings the amount of tax you owe to zero, you can have 40% of any remaining amount of the credit (up to \$1,000) refunded. Taxpayers may receive a reduced amount of the credit if their MAGI is over \$80,000 but less than \$90,000 (over \$160,000 but less than \$180,000 for married filing jointly). Those with a MAGI above \$90,000 (\$180,000 for married filing jointly) may not claim the credit.

**Lifetime Learning Credit (LLC)** – Similar to the AOTC, some students enrolled in eligible educational institutions may receive a credit for qualified education expenses – up to \$2,000 – for themselves or any qualifying dependent they claim on their tax return. The LLC is phased out for taxpayers with MAGI between \$80,000 and \$90,000 (\$160,000 and \$180,000 for joint returns).

**Pell grants** – These funds are excluded from income if used for qualified tuition and related expenses.

**Scholarships** – Scholarships for tuition and fees are nontaxable if they're used for those purposes. Even if a stipend is used for tuition and related expenses, it'll be considered taxable income. Qualifying expenses the scholarships cover cannot be used for the AOTC or LLC.

**Retirement accounts** – If allowed by the plan, taxpayers may borrow against their retirement accounts or withdraw funds from them. Depending on the type of plan, distributions may be made without incurring the 10% early-withdrawal penalty. However, distributions from certain retirement plans are subject to regular income tax.

## Funding intervals

Establish a funding interval that works based on your cash flow situation. It might be annually or even weekly, based on your family's situation.

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