

SMU Tax Policies and Procedures

Subject: Prepaid Tuition under IRC 2503(e)(2)(A)

Effective Date: 08/22/07

Bulletin No.: 5.4

The IRC section 2503(e)(2)(A) allows an individual (payor) who desires to pay tuition for any number of other individuals (donee), an unlimited exclusion from the gift tax as a “qualified” gift. Such gifts are totally separate from the annual gift exclusion. The exclusion applies only to actual tuition charges and does not cover outlays for books, supplies, dorm fees, board or similar expenses. The payment must be made to the University on behalf of the donee who is a full-time or part-time student.

The Donee and the Payor will receive a tuition receipt executed by the Payor and SMU’s Vice President for Business/Finance. The receipt will include the name of the student on whose behalf the gift is made and state that the funds are nonrefundable and nontransferable.

If for any reason the student fails to incur tuition costs within five-years after the date the contractual agreement is executed, the University shall have no further obligation of any kind to the Payor, student or any other person with respect to the unused portion of the payment.

Prepaid tuition payments made under this agreement are not reportable income to the student and/or the donor and is excluded from any gift tax.

Note: Gifts under this IRC section are gifts to or for specific individuals and do **not** qualify as charitable contributions.

References

IRC 2503 (e) (2)(A)