

Expansion of 529 Plans for 2018

What is a 529 College Saving Plan?

529 College Saving Plans, or simply 529 plans, are state-sponsored plans used to save for college or other higher education. 529 plans are one of the most popular college savings options because contributions grow tax-free and can later be withdrawn tax-free when the funds are used for qualified education expenses.

New: K-12 expenses

Under the new tax law, the definition of a 529 plan's "*qualified education expense*" has been expanded to include K-12 expenses. Starting in 2018, annual withdrawals of up to \$10,000 per student can be made from a 529 plan for tuition expenses associated with elementary or secondary public, private, or religious schools (excluding home schooling).

At the state level, roughly 20 states and the District of Columbia automatically updated their state legislation to align with federal 529 plan legislation. The remaining states will need to take legislative action to include K-12 expenses as qualified education expenses and extend other state tax benefits to K-12 expenses.

529 plan owners who are interested in making K-12 contributions or withdrawals should understand their state specific rules regarding how K-12 funds will be treated for tax purposes. It is likely that 529 plans will further refine their rules to accommodate the K-12 expansion and communicate these rules to existing account owners.

New: Transfers to 529 ABLÉ accounts

The new tax law also allows 529 plan owners to transfer funds from a 529 plan to an ABLÉ plan without federal tax consequences. This ability to transfer funds will expire at the end of 2025 unless a future Congress acts to extend the law.

529 ABLÉ (Achieving a Better Life Experience) account, or simply ABLÉ accounts, are tax-free saving accounts used to help families save funds for the financial needs of a disabled family member without putting federal benefits at risk. Like 529 plans, ABLÉ accounts allow funds to grow tax-free and can later be withdrawn tax-free to pay the beneficiary's qualified disability expenses, which may include housing, transportation, healthcare, personal assistance, and employment training and support.

Increased contribution limits

For tax purposes, contributions to 529 plans are treated as gifts. With the new tax law, individuals can each gift up to \$15,000 to a 529 plan without needing to file a gift tax return. This means a married couple could cumulatively gift up to \$30,000 per child without triggering a gift tax. Additionally, individuals can choose a five year election and front load the 529 plan with a \$75,000 gift (\$150,000 for married couples).

Contributions to ABLÉ accounts are also treated as gifts but the aggregate contribution from all donors cannot exceed the annual gift tax exclusion of \$15,000 per year.



It's important to note that different 529 plans and ABLÉ accounts have different fees, investment choices, lifetime gift limits, etc. Fortunately, you have the freedom to choose any state's plan, whether you are a resident of that state or not. If your state does not provide tax benefits for using their plan, you should shop around and search for a low cost plan with quality investment options. Do not

immediately default to your state's plan without having done due diligence to ensure it is the best plan for your needs. To learn more about state specific plan information you can visit collegesavings.org for 529 College Saving Plans and ablenrc.org for 529 ABLÉ accounts.

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