FLYNN ZITO
CAPITAL MANAGEMENT

Greetings!

Our newsletter this month is titled "2018 529 Plan Changes."

Thank you for your thoughts and feedback on our newsletters. If you know someone who may benefit from this information, please pass it on. If you have any questions or comments, please contact us.

Regards,

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2018 529 Plan Changes

Thanks to the Tax Cuts and Jobs Act of 2017, Section 529 plan savings may now be used for K-12 tuition as well as for higher education costs.

Over 20 years ago, federal lawmakers authorized states to create tax-exempt "qualified tuition programs" - Section 529 plans - to help taxpayers fund the cost of higher education. The Tax Cuts and Jobs Act of 2017 expands Section 529 by allowing tax-free account withdrawals not only for qualified higher education expenses but also for tuition at public, private, or religious elementary and secondary schools.

Tax-free 529 withdrawals for K-12 are capped at $10,000 a year, per student

If a child is the beneficiary of multiple 529 plan accounts, the $10,000 may be distributed from one or more of the accounts. Withdrawals in excess of $10,000 would be taxed according to the Section 529 rules (generally as part nontaxable return of principal and part distribution of earnings subject to both income taxes and a 10% penalty).

529 plans typically have generous contribution limits

Since most states' 529 plans have relatively high limits on contributions, using one or more 529 plans to save for both K-12 tuition and higher education expenses may be a practical option for families who expect to incur those costs. Although 529 plan contributions are not deductible for federal income tax purposes, many states provide residents a state tax deduction for contributions to their plans.

Contributions to Coverdell education savings accounts, which also allow tax-free withdrawals for qualified K-12 and college expenses, are restricted to $2,000 a year (per beneficiary) and are phased out for higher-income taxpayers. There are no such limits on 529 plan contributions. Both types of accounts allow any investment earnings to build up deferred of federal income taxes.

Rollovers to ABLE accounts are permitted

Federal tax law allows 529 plan savings for a beneficiary to be rolled over tax-free within 60 days of distribution to another 529 account for the same beneficiary. Tax-free rollovers of 529 plan funds are also permitted from one beneficiary to another beneficiary who is a member of the same family (e.g., a sibling or other relative defined in the law). This flexibility can be useful in the event the original 529 account beneficiary doesn't need the money for educational expenses or uses only a portion of the account balance.

The Tax Cuts and Jobs Act provides another rollover option by allowing 529 plan savings to be rolled over tax and penalty free (within limits) to an ABLE account owned by the designated beneficiary or a member of the beneficiary's family. ABLE accounts are tax-advantaged accounts for disabled individuals. Unless it is extended or made permanent, the 529-to-ABLE account rollover provision will expire after 2025.

This is just an overview of the new 529 plan tax provisions. Please consult your tax advisor for more information about the rules and how they apply in your specific situation.

Footnotes/Disclaimers

This communication is not intended to be tax advice and should not be treated as such. You should contact your tax professional to discuss your specific situation.

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Prior to investing in a 529 Plan investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

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