

## 529 cheat sheet



### What is a 529 plan?

529 (name given after the tax code) is an income tax advantaged savings account designed for education with after tax contributions that when used for qualified expenses, the growth in the account is not taxable for federal income tax purposes.

### Are there state income tax benefits with a 529 plan?

Over 30 states offer state tax deductions or credits for 529 contributions—seven tax parity states that offer state income tax benefit to any 529 plan (AZ, AR, KS, MN, MO, MT, PA).<sup>1</sup>

### What are the types of 529 plans?

- Investment plan
- Prepaid Plan: Pay for certain number of semesters (contract plans/futures contract) or buy fractional units (tuition index fund that are redeemable in the future). Only 10 pre-paid plans taking new applications and eight require residency.<sup>2</sup> (The states: FL, MD, MA, MI, MS, NV, PA, TX, WA—Private College 529 Plan)

### Direct sold 529 plans versus advisor sold 529 plans

- Direct access through the state with lower fees, but no advisor assistance
- Access through a state-advisor assisted plan which has higher fees but advisor assistance

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## What are examples of qualified expenses (qualified withdrawals for qualified expenses must be in the same calendar year)?

- For College: tuition and required fees, books, computer and internet access, room and board when enrolled half time minimum, student loans \$10K lifetime maximum per beneficiary
- Other qualified possibilities: \$10K per calendar year, per beneficiary for K-12 tuition only, and for certain apprenticeships: <https://www.apprenticeship.gov>
- International study can qualify—depends on the institution: <https://studentaid.gov/understand-aid/types/international#participating-schools>

## What are examples of non-qualified expenses?

Examples of non-qualified expenses (penalty—10% on the growth, ordinary income tax on the growth, possible state income tax recapture)—transportation, college application and testing fees, extra-curricular activity fees, health insurance—even if offered by college.

## Are there contribution limits?

Maximum contribution limits per beneficiary account—varies state to state—examples: Highest (CA: \$529,000, NY: \$520,000) Lowest (GA/MS \$235,000, ND: \$269,000).<sup>3</sup>

## What are the financial aid consideration if the 529 is owned by a parent?

If owned by parent, treated as a parent asset for financial aid purposes not student.

## Are there usage requirements?

No requirement to use by a certain age (unlike Coverdell which requires proceeds to be utilized by the beneficiary by age 30).

## Can you change beneficiaries?

Yes, but the new beneficiary must be blood related to existing beneficiary—check with tax advisor if there is a generation skip when there is a change is (GST).

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## Can you change ownership?

Yes, but the new owner must be a member of the family and there may be some state by state nuances to be aware of before making a decision.<sup>4</sup>

## Can you change asset allocation?

Yes, a maximum of twice every calendar year per account/beneficiary.

## Are rollovers allowed?

Yes, once per 12 month rolling period, per beneficiary (529 to Able account—which is for individuals who may become disabled, out of state 529 to different state 529, in state advisor assisted to in state direct)—if non-complaint considered a non-qualified distribution, could have state income tax recapture.

## What are gifting considerations?

529 gifts of up to \$15K per beneficiary qualify under the annual gift tax exclusion apply and are considered completed gifts (30K per year for couples). Super funding option: one-time contribution of \$75k (150K for couples) over a five-year period—check with tax advisor if donor/owner passes on before the five-year period elapses. This will utilize the donor's full annual exclusion for that beneficiary and any dollar above the annual exclusion is subject to gift tax.<sup>5</sup>

## What happens when a child earns a scholarship or pursues military ROTC?

You can withdraw the amount of the scholarship without penalty, but ordinary income taxes apply, state income tax recapture a possibility.

## What is the process of withdrawing from the account?

- You can pay the school directly, or a distribution can be sent to the owner of the account or to the student/beneficiary—IRS forms are issued (maintain calendar year records in case of audit)—IRS 1099Q is sent upon withdrawal from 529—issued to beneficiary if sent to school or beneficiary, sent to owner if issued to owner
- If beneficiary's school returns money previously taken as a qualified withdrawal (as in case of Covid-19 refunds) check with tax advisor about recontributing funds within the 529 within 60 days of the refund

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## Sources

- <sup>1</sup> <https://finaid.org/savings/state529deductions/>
- <sup>2</sup> <https://www.savingforcollege.com/article/prepaid-tuition-plans>
- <sup>3</sup> <https://www.savingforcollege.com/article/how-much-can-you-contribute-to-a-529-plan>
- <sup>4</sup> <https://www.irs.gov/publications/p970>
- <sup>5</sup> <https://www.irs.gov/publications/p970>

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