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SHARING OUR THOUGHTS ON 529 PLANS

Once you have mapped out your education savings strategy with your Financial Advisor, it can feel like saving is the easy part. But when that first acceptance letter arrives, how do you use what you've saved in the most tax-efficient ways possible? The rules for tax-advantaged education savings accounts such as 529 Plans can change. Therefore, it is essential to have a professional you trust help you navigate the shifting landscape. That way, you won't accidentally step in something… such as some nasty tax implications.

529 College Savings Plans were introduced in 1996 and have become a popular way to save for tuition expenses in a tax-advantaged way. Each state sponsors its own 529 plan and while investors can sometimes receive a state income tax break on contributions to their resident state's plan, you are not required to choose the plan offered by the state you live in. For example, Connecticut offers residents state income tax breaks on contributions to the Connecticut Higher Education Trust (CHET) Plan. However, if a Connecticut state resident were make contributions to a 529 plan sponsored by the State of Arizona, those state income tax breaks would be forfeited. Contributions to a 529 account grow tax deferred, and as long as withdrawals are qualified, distributions are not taxable. The following link provides a complete description by the Securities & Exchange Commission. The most commonly known qualified withdrawals are what are known as Qualified Higher Education Expenses (QHEEs). QHEEs include tuition, mandatory fees, allowable room and board, required books and supplies, and technological equipment, such as a computer or laptop, printers, software, and internet charges during the years a student is enrolled at a qualifying institution. Additional information regarding what equipment qualifies can be found here.

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Here are 5 lesser known but important considerations that may provide additional benefits when considering how to fund or to distribute your 529s:

529 Funds Can Now Be Used for K-12 Education

The 2017 Tax Cuts and Jobs Act made changes to 529 Plans that expand the definition of what is considered a "qualified higher education expense." Under the new rules, $10,000 per year per student can be withdrawn without tax or penalty to pay for K-12 tuition at a private, public, or religious school.

Off Campus Living Expenses

Subject to allowable limits, you may use 529 funds to reimburse costs of off campus housing provided you meet certain requirements. This requires careful coordination with your tax advisor and with your student's financial aid office. In general, if your student chooses to live off campus, you may withdraw an amount equivalent to the room and board your child would pay living on campus.

When Your Child Receives a Scholarship

If your child receives a tax-free scholarship and doesn't need all of the funds in his or her 529 account, you have multiple ways to access the funds for expenses other than tuition. You can withdraw money from a 529 Plan up to the amount of the tax-free scholarship without paying the 10% penalty, but you still have to pay income taxes on earnings (although your contributions can always be withdrawn tax and penalty free). Sometimes, the administrator of the 529 Plan will allow your child to take the withdrawal herself, listing her name on the Form 1099 that reports the withdrawal to the IRS. She would then be responsible for paying the taxes, but that can help lower the overall tax bill as your child is likely to be in a lower tax bracket than you are.

Surplus Account Balances

If you are fortunate enough to have money left over in your 529 Plan after your child has graduated, you can change your 529 Plan beneficiary to another family member who plans to attend a private K-12 school, college, or graduate school. This can be yourself, your spouse, another child or grandchild, or even a first cousin or another relative. Click here for a link to the Qualified Tuition Program section of IRS Publication 970 for a full list of eligible beneficiaries.

529 Plan Record Keeping

When you start taking distributions for your student, you will need to start keeping records. Be sure to take distributions in the calendar year they will be used. Your 529 Plan provider will send a form 1099-Q in the mail outlining the distributions taken for the year. Maintain a record of the QHEEs paid for in that year and the distributions taken from the 529 Plan. While you likely won't be required to present this information to the school or 529 Plan administrator, you will need to provide this information should the IRS select you for examination.

Like any long journey, coordinating withdrawals from tax-qualified education savings accounts can be overwhelming, but rewarding. And most importantly, you don't have to go it alone. Your teammates at the Andriole Group are here to help you every step of the way and are dedicated to you and your family's success. The way to start the journey is to start a conversation.

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