YHB CPAs & Consultants

TAX CUTS & JOBS ACT EXPANDS BENEFITS OF 529 SAVINGS PLANS

The Tax Cuts and Jobs Act was signed into law on December 22, 2017, which brings about the largest tax reform since 1986. While most of the focus has been on the changes to corporate and personal tax rates and deductions, the plan also includes many other small provisions that tend to be overlooked. One of these provisions expands the benefits of 529 savings plans.

A 529 plan is a tax-advantaged savings plan originally designed to help families pay for college. The main advantage of a typical 529 plan, over a normal savings or investment account, is that the earnings are not subject to federal tax and are typically not subject to state tax, as long as the funds are used for qualified education expenses. Examples of qualified expenses include tuition, fees, books, and room and board. However, if distributions from the plan are not used for qualified education expenses, the earnings then become taxable and are also subject to a 10% penalty.

Prior to the Tax Cuts and Jobs Act, not only did the funds have to be used for qualified education expenses, but they had to be paid directly to an eligible institution. This included colleges, universities, vocational schools, or other postsecondary schools. With the new tax bill, distributions of **up to $10,000 per year, per beneficiary can now also be used for elementary or secondary public, private, or religious school tuition**. While this is a great new benefit, it may require individuals to revisit their investment strategy with their financial advisor. For example, if an initial investment strategy was put in place to achieve a target account balance by the time the beneficiary reaches age 18, taking distributions out sooner to pay for K-12 tuition may result in a much smaller account balance available to use for post-secondary education expenses, than originally anticipated.

In addition to the earnings of 529 plan accounts being tax free, some states offer additional tax benefits for 529 plans. Virginia, for example, allows taxpayers to deduct contributions of up to $4,000 per account per year on their state income tax return. Any contributions in excess of this limit can be carried forward and deducted in future tax years. However, taxpayers, including grandparents, age 70 and older are not subject to this $4,000 limit, and can deduct the full amount of any contributions made to a 529 plan account in one year.

At YHB, we are more than assurance and tax specialists. We are advisors whose ultimate goal is to help our clients grow and remain sustainable for many years. Our personal commitment to clients means we listen to their concerns and respond with solutions that meet their needs.

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