

New 529 Plan Regulations Since the Tax Cuts and Jobs Act

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With the passage of the Tax Cuts and Jobs Act, the use of 529 Plans has been expanded to include elementary or secondary school expenses in addition to college expenses. This use provides an additional benefit to 529 Plans already in place. However, this change comes with one important caveat. Below is an informative summary of what 529 Plans are and the benefits to you.

What is a 529 Plan?

A 529 Plan is a type of investment account which allows individuals to accumulate money and pay education expenses on a tax-free basis. The account owner gets to determine the investment, name a beneficiary, and determine how the funds are spent.

Who Can Be a Beneficiary?

Essentially anyone who is a U.S. citizen or resident alien can be named as a beneficiary. It can be a child, grandchild, friend, or even yourself. If your beneficiary no longer needs the account or has completed their education, you can choose a new beneficiary or withdraw the funds (subject to tax penalties) at any time. Funds contributed in 2018 and after can now be rolled into an ABLÉ account (Achieving a Better Life Experience Account) for individuals with special needs without penalty.

What Are the Benefits of a 529 Plan?

The 529 Plan account funds grow state and federal tax free. You will not have to pay federal or state income taxes on money you withdraw from the account so long as the money is used for qualified education expenses. If you are a Missouri resident, you can deduct up to \$8,000 (\$16,000 if married filing jointly) of contributions to any 529 Plan when you file your state income tax return.

How Much Can You Contribute?

A single individual can contribute up to \$15,000 each year and the contribution will not be subject to federal gift tax (\$30,000 for a married couple). A single individual can also contribute a large sum not to exceed \$75,000 per beneficiary (\$150,000 for a married couple) but have it considered as being contributed over a five year period. Missouri's 529 College Savings Plan limits total contributions to \$325,000 for one beneficiary.

What Can You Use 529 Plan Funds For?

These funds can be used to pay for tuition, room and board, books, supplies, computers and software, internet access or any qualified education expense for the beneficiary's post-secondary education. In addition, you can now use up to \$10,000 each year of 529 Plan funds for qualified education expenses at public or private elementary and secondary schools. ***Please note that this may not be the case for all states.*** Missouri will allow for the use of funds for elementary and secondary schools ***without*** any state income tax recapture. Some states will need to statutorily address this change before this benefit would be available without negative state income tax repercussions.

If you would like to discuss how your 529 Plan fits into your estate planning or implementing some planning, please contact our office to schedule a consultation. You may reach us by calling (573) 447-3355 or by email at: info@crippsandsimmons.com.

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