529 COLLEGE SAVINGS PLANS: WHAT CAN DO FOR YOU

Provided by Dominic Lucente

Most people have heard of 529 College Savings plans and understand their value in relation to saving money for future higher education for young family member. What some may not know is that the qualifying use of these dollars as well as options for unused funds have expanded considerably in the past few years.

As a quick primer, a 529 Plan is an investment account that offers tax benefits when used to pay for qualified education expenses for a designated beneficiary. The benefits include tax-deferred growth on the investments while in the plan: the earnings can be tax-free when used to pay for specific education costs. Since 529 Plans are run at the state level, some states offer specific tax benefits for residents when using their state's particular plan. 529 Plans encompass two main types of savings programs, Prepaid Tuition Plans and College Savings Plans. For our purposes, we'll be looking at College Savings Plans.

WHAT'S CHANGED?

Ultimately, WE have changed, meaning our nation's educational needs and options. Due to expanding options for alternative forms of education and demand for more flexibility in their use, the rules around 529 plans by necessity have expanded.

This month, we'll talk about how fund can be used to maintain the tax benefits of these plans, and next month we'll talk about options for unused 529 dollars.

QUALIFIED EDUCATION EXPENSES

Generally, tuition, fees, books, supplies, and equipment/technology required for attendance at a higher education institution are considered qualified expenses. Reasonable cost for room and board are also included in this list if the student is attending school at least half-time. Additionally, education expenses incurred to allow a special needs beneficiary to enroll and attend an eligible institution would be allowed as well.

The Tax Cuts and Jobs Act of 2017 expanded 529 plan benefits to include tax-free withdrawals for private, public or religious K-12 tuition up to $10,000 per year. Again in 2019 with the SECURE Act, there was an expansion in use of college savings with apprenticeship program costs added as eligible expenses. In addition, up to $10,000 in a student's lifetime can now be used to repay student loans.

WHAT IF I HAVE UNUSED 529 DOLLARS?

Some children choose not to go to college or to enter the trades through an apprenticeship program, so there are times when the 529 plan savings may be more than needed. One great aspect of 529 plans is that they allow for unlimited change in beneficiaries to members of the same family without tax implications. Family members include: siblings, children, grandchildren, parents, nieces, nephews, uncles, aunts, their spouses, and first cousins.

For situations where a change in the beneficiary would not be helpful, there are a couple of options to avoid taxes and penalties on unused 529 savings.

First, any penalty on distributed earnings is waived if the beneficiary receives a tax-free scholarship, attends a U.S. Military Academy, or should die or become disabled. While the earnings distributed would still be subject to taxation, no penalty would be assessed in this situation.

Second, 529 funds can be rolled over to a 529 ABLE account, specifically for individuals living with a disability. The ABLE Act of 2014 allows Americans living with disabilities to save money for college and other expenses in a tax-deferred account to supplement private insurance and public benefit.

Finally, beginning in 2024, as a result of the SECURE Act 2.0 signed into law in 2022, up to $35,000 of 529 assets can be rolled over into a Roth IRA in the same name as the beneficiary. There are stipulations to this option, like the 529 plan must have been open for 15 years or longer, and no funds contributed within the last five years are eligible for rollover, but this can still be a way to jumpstart a beneficiary's retirement savings should there be excess savings.

As we approach the end of the school year, it might be a good time to explore your options to save for college or other educational expenses.

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.

Financial planning offered through Northeast Planning Associates, Inc. (NPA), a registered investment adviser (RIA). Securities and advisory services offered through LPL Financial (LPL), an RIA and broker-dealer (BD), member FINRA/SIPC. Credit union is not an RIA or BD. Insurance products offered through LPL or its licensed affiliates. LPL registered representatives offer products and services using NPA. These products and services offered through NPA, LPL, or its affiliates, which are separate entities from, and not affiliates of the credit union, are: Not Insured by NCUA or Other Government Agency Not Credit Union Guaranteed Not Credit Union Deposits or Obligations May Lose Value.