



529 Basics

529 plans are common vehicles used to fund education due to tax benefits if the funds are used for education purposes. Earnings grow tax-free and are not taxed at the federal or state level if the proceeds are used to pay for eligible education expenses. Many states offer full or partial state tax deductions for contributions to a 529 plan.

Qualified Education Expenses

Qualified education expenses include tuition & fees, supplies, and equipment, as well as room & board for post-secondary students enrolled at least half-time. The cost of K-12 tuition is also eligible for expenses up to \$10,000 per year, per beneficiary.

Contributions and the Gift Tax

You can contribute up to \$18,000 a year per person, per beneficiary without gift tax consequences. 529 plan accounts also offer the ability of an account to be “super funded” with contributions of \$90,000 per person, per beneficiary. This utilizes your federal gift tax exclusion for the following five years for the beneficiary of the 529 plan.

What happens if the beneficiary does not use all the 529 monies?

Distributions of contributions are income tax-free and penalty free. Accumulated earnings withdrawn for purposes other than qualified education expenses are taxed at ordinary income rates and could be subject to a 10% penalty. Nonqualified distributions are treated as a pro rata distribution of contributions and earnings. However, a 529 plan is transferable to an eligible family member of the beneficiary. The owner of the 529 savings plan can also change the beneficiary to another beneficiary who is a family member of the original beneficiary. There are no gift tax consequences as long as the new beneficiary is a family member assigned to the same generation as the original beneficiary. Additionally, if the beneficiary receives scholarships, you can generally withdrawal the scholarship amount from the 529 plan without incurring the 10% penalty on earnings; however, you will still have to pay ordinary income tax on the earnings portion of the withdrawal.

Please see important disclosures on the following page

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