

Section 529 college savings plans, or qualified tuition plans

Section 529 college savings plans, also known as qualified tuition plans, are among the best ways to save for children's or grandchildren's college education. Section 529 college savings plans are the most flexible and popular type of Section 529 plan.

What is a Section 529 college savings plan?

Section 529 plans are now offered by all 50 states and the District of Columbia and provide a wide variety of investment choices. The owner of the account establishes the plan (and controls the investments in the plan) for the benefit of a student who anticipates incurring college expenses. The contributions are not deductible for federal income tax purposes, but many states allow deductions or a credit. The earnings generated by those contributions will be tax-exempt if used by the beneficiary for qualified higher education expenses (such as tuition, fees, books, and room and board).

Contributions and investment choices

Anyone can contribute money on behalf of a beneficiary, and each state has a maximum cumulative contribution limit per beneficiary that ranges from \$146,000 to \$305,000. For most plans, there is no age limit for the beneficiary or a residency requirement. Most plans offer adaptive asset allocation strategies, based on the age of the child or number of years until enrollment, as well as other investment strategies.

Distributions

Withdrawals, including earnings, are not subject to federal or state income tax (except for the state of Alabama) if used for qualified higher education expenses. Under the *Tax Cuts and Jobs Act*, more distributions from Section 529 plans will be eligible to be tax-free. The definition of "qualified higher education expenses" still includes tuition, fees, books, supplies, and required equipment, as well as reasonable room and board if the student is enrolled at least half-time. However, the definition of "eligible schools" has been expanded. It previously included colleges, universities, vocational schools, or other postsecondary schools eligible to participate in a student aid program of the Department of Education. This included nearly all accredited public, not-for-profit, and proprietary (for-profit) postsecondary institutions. Under the new tax act, for distributions from a Section 529 plan after Dec. 31, 2017, "qualified higher education expenses" now also include tuition at elementary or secondary public, private, or religious schools, up to a \$10,000 limit per tax year.

Learn more

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If withdrawals are not used for education, the earnings are taxable and subject to a 10 percent federal penalty. The 10 percent federal penalty is waived for death, disability, or the receipt of a scholarship equal to the amount withdrawn. Beneficiaries can be changed without penalty by designating another member of the family as the new beneficiary.

Gift and estate tax benefits

Section 529 plans can provide favorable results in the federal estate and gift tax arena, too. An accelerated gift option allows allocation of gifts to a Section 529 plan over a five-year period without incurring any gift tax. Currently, gifts of up to \$15,000 (\$30,000 for married couples) may be made annually without incurring gift tax. If the accelerated gift option is elected, an individual can contribute up to \$75,000 per beneficiary and a couple can contribute up to \$150,000 per beneficiary in one year without incurring gift tax. The accelerated gift option treats the contribution as ratably made over the five-year period (at \$15,000 or \$30,000 per year). If the donor should pass away during the five-year period, the amount included in his or her estate is a pro-rata amount determined by the number of remaining years, not including the year in which the donor died.

How clients can benefit

We can assist in evaluating which Section 529 plan to select and how to comply with any required gift tax filings. We can address any generation-skipping transfer tax issues if the plan beneficiaries are grandchildren or great-grandchildren. To provide clients with comprehensive planning and compliance services, our team of specialists keeps up to date on new estate planning techniques, law changes, IRS rulings, and court cases.

About Crowe tax services

With more than 70 years of experience in providing tax solutions to our clients, Crowe has dedicated professionals who specialize in estate and income tax planning and consulting. Our goal is to develop solutions that meet the needs of our clients.