TAX REFORM BILL EXPANDS COLLEGE SAVINGS PLANS TO INCLUDE K-12

GOOD NEWS! Beginning in 2018, there's a new tax break for parents who send their children to private elementary and high schools. The newest tax reform bill will expand the use of 529 savings accounts (*currently, money invested in 529's can be used for college expenses only*) to use for "public, private or religious elementary or secondary school" expenses so that families can withdraw up to $10,000 a year tax free from their 529 savings account, as of 2018.

A 529 plan is an educational savings plan operated by a state, state agency or educational institution. There were two types of 529 plans created: a savings plan and a pre-paid plan. The 529 Savings Plan works a lot like other types of savings plans in that contributions are invested into mutual funds or other investment vehicles. The plan you choose will provide you with investment options, and the value of the account will go up and down based upon the performance of the investments you select.

The new tax plan includes a provision that allows 529 plans to be used for K-12 education expenses. This includes private school tuition as well as public and religious elementary and secondary school expenses. It does not allow 529 plans to be used for homeschooling expenses. Beginning this year (2018), 529 plans can pay up to $10,000 a year (depending on how much you have contributed to your account) for K-12 expenses

These accounts are easy to set up and contributions can be automatically deducted from your bank account every month. You can contribute up to $14,000 a year for single filers and $28,000 for couples filing jointly. There is also an option that allows you to fund a 529 Savings Plan with up to $70,000 (single) or $140,000 (married) in one year, but then no contributions can be made for five years. Lifetime limits (set by the state) vary but are at least $300,000.

The biggest advantage to saving money in a 529 account is that you won't have to pay federal tax on your investment gains. Also, your contributions are not tax deductible on your federal income tax return, but the earnings are tax-deferred. Some states also allow account holders to deduct their contributions against their state income tax.

You, as the donor, control the account, which means you call the shots. You decide when distributions are made from the account and for what purpose. Funds may be used for any qualifying educational expense. And you, the owner of the 529 plan, name the beneficiary which can be your child, your niece, your grandchild or even yourself!

If your child (the beneficiary of the 529 plan) does not use all of the funds, you can reclaim the funds, but the earnings portion will be subject to income tax and an additional 10 percent federal tax penalty will be imposed on the earnings as well. An exception can be claimed if you withdraw the funds due to death, disability or if your child receives a scholarship and doesn't need the funds for college expenses.
Another great feature of these savings plans is that a family with more than one child can simply change the beneficiary. If your oldest child receives a scholarship and does not need the 529 funds, you can change the beneficiary to another child and avoid the penalty or at least defer it until all of your children have completed college.

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