



2017 TAX CUTS AND JOBS ACT:

The Tax Cuts and Jobs Act & Your 529 Plan...Has It Changed?

The primary benefit of a 529 plan is that it allows money to grow tax deferred. If the funds are spent on qualified higher education expenses when distributed, no penalty is incurred.

529 plans are generally sponsored by states and potentially have unique benefits for plan participants that reside in the state of the plan they are contributing to. For example, if you live in New York and contribute to their state-sponsored 529 plan, you can deduct up to \$5,000 (\$10,000 for married taxpayers) on your New York income tax return.

The Tax Cuts and Jobs Act (TCJA) amended the laws under §529. **The new law permits qualified education expenses to include elementary school and secondary school, not just college.**

However, they limit the 529 distribution for elementary and secondary school to \$10,000 annually per beneficiary. *Example: Parents and grandparents both have a 529 for the same beneficiary. They could not both take out \$10k for the same beneficiary, but \$5k from each would be fine to help cover school expenses under the new laws.*

This can be a great strategy for parents in conjunction with the beneficiaries' grandparents. For example, the grandparents may use their annual gift tax exclusion to fund the 529 plan and earmark their contributions for college years, while the beneficiaries' parents are using a portion of theirs for private elementary, middle or high school.

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Taking advantage of super funding a 529 plan with a five-year gift-tax election is another education planning strategy. This strategy allows you to contribute five times the gift tax annual exclusion (2018 = \$15,000) in one year. However for gift tax purposes, it will be treated as being made ratably over a five-year period. This means you could contribute \$75,000 (\$15,000 x 5) in 2018, or \$150,000 if splitting gifts with a spouse. The five-year gift tax election can be extremely advantageous when the beneficiary is young and there is a long-time horizon for the account to grow tax-deferred in the 529 account.

Your wealth advisor can help you navigate how you can best take advantage of these new law changes.