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Education Savings Opportunities for Catholic School Families

The Catechism of the Catholic Church says "Parents have the first responsibility for the education of their children . . . and have the right to choose a school for them which corresponds to their own convictions. This right is fundamental. Public authorities have the duty of guaranteeing this parental right and of ensuring the concrete conditions for its exercise" (CCC #2229).

There are various ways in which federal and state governments can provide opportunities for families to be supported in their choice of schooling for their children. Some of these options (vouchers, tax credits, and education savings accounts) have been explored in earlier editions of the NCEA Parent News. The new 2017 Tax Cuts and Jobs Act law has created another parental choice option with the expansion of 529 savings plans.

More than two decades ago, the Internal Revenue Code Section 529 created tax-advantaged investment accounts designed to encourage saving for college costs. The legal name for 529 plans in the tax code is "qualified tuition programs" and they are offered by states. Earnings on funds invested in these programs are not taxed federally when used for "qualified higher education expenses." While college expenses include tuition and fees, room and board and computers, the expansion for K-12 usage is earmarked for withdrawals up to $10,000 a year per account only for tuition for private and religious schools.

The deposits into the 529 accounts are not deductible for federal tax purposes, but the earnings on the accounts accumulate tax free over the lifetime of the account. Additionally, some states provide tax deductions or credits for all or part of the contribution to a 529 account. Those who wish to create a 529 account may do so directly through a state's college savings program website or through a financial adviser.

Any U.S. citizen or resident alien 18 years old or older can open a 529 account for any beneficiary. Parents, grandparents, aunts, uncles, godparents, other relatives or friends may open separate accounts for a child or contribute to a single plan. There is no limit to the number of plans one can set up and there are no income restrictions on either the contributor or the beneficiary. The availability of an account with state tax advantages for contributors may incentivize assistance from friends or family who may not have otherwise assisted with tuition contributions. The control of the fund remains with the contributor.

The 529 expansion is a significant step in the ongoing quest for financially supported school choice. 529s benefit many families who can contribute funds into accounts for their children where the gains may be withdrawn tax-free. In many states, the money contributed to the plan is deductible for state income taxes but state laws on this point vary widely.

For those families, immediate and extended, who can contribute to a 529 account it is important to follow implementation guidance from the IRS as well as consultation with an accountant or financial adviser to determine if a 529 account is appropriate.

However, many families of modest or low income may not be able to take advantage of such a program and will need assistance such as tax-credit scholarship programs, vouchers, education savings accounts and other choice programs to enable them to exercise their right to select the best school for their children. Parents, educators and church and public officials would do well to unite in efforts to advocate for parental choice programs at the state and federal levels that will support parents as the primary educators of their children.