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NCEA PARENT NEWS

A CATHOLIC SCHOOL EDUCATION NEWSLETTER

New Education Savings Opportunity Available for Catholic School Families

Recent updates to the U.S. federal tax code provide an opportunity for tax relief for parents who pay tuition for their students in elementary and secondary schools. The 2017 *Tax Cut and Jobs Act* expanded 529 savings plans, originally applicable only to college expenses, to now allow families to use such saved funds for K-12 tuition.

What is a 529 Plan? A 529 Plan is a special, tax-advantaged investment account that is created and operated by a state or an education institution designed to encourage saving for college. The primary benefit of such plans is that any earnings from growth over time are not federally taxed if they are used to pay for qualified education expenses. In many states, an additional benefit is that contributions to a plan may be eligible for a state income tax credit or deduction depending on the provisions in the state tax code.

Anyone may open a savings account on behalf of a child. A parent, grandparent, relative or friend may create an account for which they retain ownership and withdraw funds for tuition payments on behalf of the beneficiary. The beneficiary is the person so designated on the account and the beneficiary can be changed among family members with no penalty. Multiple accounts may be opened for a student or various persons may contribute to a single plan. However, the maximum amount that can be distributed tax-free per calendar year is $10,000 per student, regardless of the number of 529 accounts in that child's name.

Each state runs its own program differently and offers different incentives for opening a 529 plan. In order to encourage subscribers to invest in their program, many states offer tax incentives such as credits or deductions against state tax liability for contributions to a 529. A total of 35 states grant tax incentives for their 529s but only 20 allow withdrawals for K-12 tuition.

There are three possible options to consider when determining whether or not to use a 529 plan for K-12 tuition expenses:

a) State has an income tax but does not allow use of 529s for K-12 tuition. Caveat: while you will receive a federal tax break on fund growth, you will not get a state tax break and may be fined a 10% penalty if funds are withdrawn for K-12 tuition.
b) State does not have an income tax: you only receive a federal tax break on fund growth.
c) State does allow use for K-12 tuition and grants tax credits or deductions. This provides a federal tax break for fund growth and a state tax credit/deduction for the contribution. The contribution does not have to remain in the fund for any specific period of time. It may be withdrawn almost immediately to make tuition payments and still be eligible for the state tax credit or deduction.

To determine if you can benefit from the new 529 rules, consult your state 529 website to see if withdrawal for K-12 tuition is an allowable expense and whether there are state tax benefits for contributing to a 529. If you choose to create a plan, you may enroll directly with a State 529 plan manager or with a financial advisor. However, due to some of the legal technicalities of such plans, it is wise to consult first with a financial advisor or accountant to be certain of the specific state requirements so you might select the best option for your family and avoid any penalties.