



## 2019.20 Training

***Subject: Section 529 Plans (Qualified Tuition Programs) | Talking Points***

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***Subject: Section 529 Plans (Qualified Tuition Programs) | Talking Points***

### **What is a Section 529 Plan?**

A Section 529 Plan, also known as a Qualified Tuition Program or QTP, allows you to prepay a student's college tuition or contribute to an education savings account. Contributions are not tax-deductible on federal returns, but distributions will be tax-free if they are used to pay for qualified education expenses for the plan beneficiary. Many states offer an additional tax break: Parents may deduct \$10,000 in 529 plan contributions per child, per year.

Beginning January 2018, distributions from the 529 plan can be used to pay up to \$10,000 per year of tuition for elementary or secondary public, private or religious schools. Homeschooling expenses are not eligible.

### **What expenses can Section 529 Plans be used for?**

There are two types of 529 plans, the prepaid tuition plan and the education savings plan. The prepaid tuition plan can only be used for tuition and required fees. This plan is generally sponsored by a state and locks in a child's tuition and fees for future attendance at a state school at today's prices.

The second program is the education savings plans. This plan can be used for:

- Tuition and fees
- Room and board – which normally includes housing and a food plan
- Graduate school
- Kindergarten through grade 12 tuition and fees up to \$10,000

- Computer, peripherals (such as monitors and printers), and internet access
- Books, lab equipment, and other necessary items for classes

### **Who can contribute to a 529 plan?**

- Grandparents
- Parents
- Other relatives
- Friends
- Even the beneficiary

### **What are annual contribution limits for a Section 529 Plan?**

The contribution amounts are limited to the amount needed to cover the qualified education expenses for the beneficiary. Gift tax exclusion limits are \$15,000 per donor for 2018 and 2019. If you contribute more than this you will have to file a gift tax return for the year.

### **How does a Section 529 Plan differ from a Coverdell Education Savings Account?**

A major difference between a 529 plan account and a Coverdell account has to do with the age limit of these accounts' beneficiaries. Money from a Coverdell account must be used by the time the beneficiary is 30 years old. There is no age limit for beneficiaries of 529s. In both cases, however, the account custodian can designate a new beneficiary without having to pay taxes.

Under tax reform, both a 529 plan and a Coverdell account can be used for K-12 education, as well as college and university.

Coverdell accounts have a limited total annual contribution of \$2,000 per child. States control the amount you can contribute to a 529 plan account, generally there is no cap on annual contributions. Donors should be careful of the annual Gift Tax Exclusion amount, which is \$15,000 for 2018 and 2019.

An individual can be a beneficiary of multiple Coverdell accounts, but only a total of \$2,000 can be contributed each year. An individual can be the beneficiary of multiple 529 plan accounts and only limits set by the state apply.

A Coverdell account is only available if the parent's or individual's annual income is below \$110,000 (\$220,000 if married filing jointly) where there is no income limit for contributing to a 529 plan.

### **How did 529s change after tax reform?**

The Section 529 Plan program has been expanded under the tax reform. Up to \$10,000 a year can be used from a 529 plan to pay K-12 tuition and expenses for public, private, and religious schools. Prior to tax reform, only Coverdell Savings Accounts (CSA) could be used for primary and secondary school education.

Any remaining amounts in a 529 plan can be rolled over to an ABLÉ account for the beneficiary or their qualifying relative.