

529 Savings Plans for K-12 Students – What Happens Now?

In 2017, Congress expanded 529 savings plans to include qualified K-12 education expenses. There are many questions about this policy change, so our organizations teamed up to answer some of the most commonly asked. That being said, there are lots of questions about 529 savings plans that are still unanswered, since states are still in the process of responding to this federal change. As states continue to respond, we will regularly update this document.

What is a 529 savings plan?

529 savings plans were originally designed to be tax-advantaged plans that help parents save for future college costs. 529 plans are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the Internal Revenue Code. Essentially, a 529 plan allows parents to put money into an investment account for their children's college tuition, and all financial growth on that account is untaxed at the federal level. Parents can contribute money to a 529 account in their own state or contribute to another state's 529 savings account.

Example: A parent donates \$1,000 after-tax dollars into Aisha's 529 account when she is born. The account is worth \$2,500 when Aisha attends college. If Aisha uses the \$2,500 to pay for qualified college expenses, there is no federal tax on the \$1,500 earned in the account.

What has changed about 529 savings plans?

The [Tax Cuts and Jobs Act](#) passed in 2017 expanded the use of 529 savings plans so that parents can now use these funds for up to \$10,000 per year in qualified K-12 education expenses in addition to college expenses. There are no federally mandated maximum contribution limits, and any financial growth in the account will continue to be free of federal taxes. In states that allow parents to apply 529 savings to K-12 expenses, parents can now put as much as they want in the account each year to use toward elementary and secondary tuition at private schools, but each state has its own cap on the total amount that can be in a 529 account (usually between \$200,000-\$300,000).

Does the federal expansion of 529 savings plans apply to state tax laws in all 50 states?

Not automatically. It's up to each state to determine whether the K-12 expansion will apply to their plans – i.e. whether parents can use 529 savings for K-12 expenses and still not pay state income tax on the account growth.

This issue doesn't apply for the nine states that do not have individual income tax because 529 plans are designed to create income tax savings; in these states (see map on the next page), there is no state income tax savings to apply to 529 accounts. Nine other states have reported that no legislative changes will be needed and their states will recognize the changes made in the federal law. Nine states have explicitly stated that legislation will be needed to address the changes.

However, many states have yet to officially determine how the changes will affect their respective states. In 23 states plus Washington, D.C., legislative changes may be required for the 529 plans in those states to comply with the new federal law. It is still undetermined whether states will extend this benefit to state taxes.

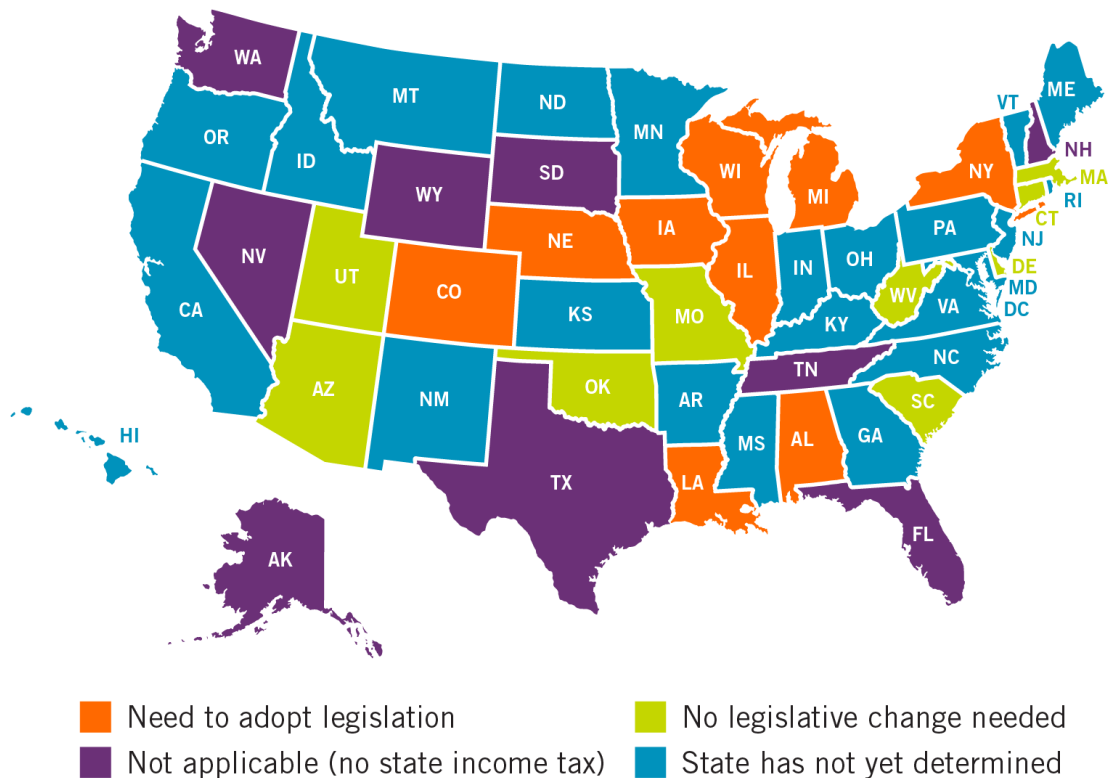
What do states need to do to institute the federal changes?

Washington, D.C. plus the 23 states that do not automatically adopt the federal 529 changes need to enact legislation and/or regulations that explicitly create a policy by which parents can use 529 savings to pay for K-12 education expenses. Policymakers in several states are already working to make this happen.

Will states' 529 bonuses apply to K-12 savings?

It's too early to tell whether states that provide extra tax incentives – or bonuses – for money put in 529 accounts for college will extend these types of incentives to savings for K-12 expenses.

STATE-BY-STATE REQUIREMENTS FOR EXPANDING 529 ACCOUNTS TO K-12 EDUCATION EXPENSES



What kind of education expenses can 529 savings plans cover?

Under federal law, 529 savings plans can be used to pay for “qualified higher education expenses” – which includes only the following: tuition; room and board; mandatory fees; books; computers; and software.¹ According to federal law, additional qualifying expenses now include tuition for elementary or secondary public, private, or religious schools.² Homeschooling expenses are not qualified expenses under federal law.

What should parents do if they are interested in putting money into a 529 for K-12 education expenses?

Parents should talk with tax professionals in their respective states to learn whether they can use 529 savings for K-12 expenses tax-free at the state level. Because this federal change is relatively new, parents should proceed with caution when using their 529 savings for K-12 purposes, and should consult with local experts who can provide state-specific advice.

Here are some questions parents might want to ask their accountants and/or financial advisors about 529 accounts:³

1. What are the specific benefits and limitations of a 529 account in my state?
2. Should I wait until my state clarifies its 529 rules before using 529 savings for K-12 expenses?
3. What impact does 529 have on college or K-12 financial aid?
4. What is the interplay between 529 contributions and gift tax limits?
5. How can I superfund my 529 savings account?

¹ <https://investor.gov/additional-resources/general-resources/glossary/qualified-higher-education-expenses>

² <https://www.congress.gov/bill/115th-congress/house-bill/1/text>

³ <https://agudathisrael.org/529plan>