The New and Improved 529 Plan - Not Just for College Anymore

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The massive One Big Beautiful Bill (OBBB) that recently passed can benefit 529 plans. Many of your clients likely contribute to their children's and grandkids' 529 accounts.

Young adults can open and save in their own 529. But these are no longer just for college or for young people. Is your client paying a broad array of educational expenses, trade and professional licenses, continuing education classes? They can open a 529 account for themselves to pay with tax-advantaged dollars.

The two biggest benefits are tax-free growth and a small state tax break. Your client contributes after-tax money. The funds grow and are not subject to tax; withdrawals are tax-free if used for qualified expenses.

Over 67 percent of states give a state tax deduction for contributing to their state's 529 plan; nine states give a deduction for contributions to any plan anywhere; five states give a tax credit. The article "How Does Your State's 529 Plan Income Tax Benefit Work?" on savingforcollege.com explains each state's benefits.

Clients can now take out up to $20,000 per year for K-12 expenses, which has expanded to a broad list, including:

- Tuition to public, private, religious schools;
- Expenses for curriculum materials, textbooks, online education materials;
- Tutoring (can't be related to the student, must meet some qualifications);
- Fees for standardized tests (e.g., ACT, SAT), AP exams, college admission exams;
- Dual enrollment fees for postsecondary programs (college courses taken in high school); and
- Educational therapy for disabled students (e.g., speech therapy).

If your client plans to use a private school for their kids, they can contribute to a 529 for the state tax benefits and then pay tuition payments.

The 529 is for dental hygienists, electricians, plumbers, carpenters, culinary school chefs, aircraft maintenance technicians, computer network techs, auto mechanics, and more. Whether for themselves or their children, clients can pay qualified expenses at vocational schools, in registered apprenticeship programs—as well as at colleges—and includes:

- Tuition, fees, and standardized tests;
- Books and supplies (e.g., tools, equipment for vocational schools and apprenticeships);
- Computers, software and internet access;
- Room and board (even if the student stays at home, but it's not allowed for apprenticeships);
- Special needs equipment and services; and
- Student loans up to $10,000 (lifetime) per borrower.

CPAs and many clients can take advantage of the OBBB's expansion of 529s. Qualified expenses now apply for most post-graduate programs, most professional schools (e.g., master's, medical, law, business, cosmetology) and trade certification programs—to get a credential or an eligible occupational license. These include:

- Tuition, fees, books, other required expenses;
- Fees for exams to obtain the credential (e.g, trades, plumbing, cosmetology); and
- Fees to maintain the credential (continuing education requirements).

As CPAs, we paid a fee to sit for the exam. That can now be paid from a 529 account. You can also now pay a portion of your required annual 40 hours of continuing education courses as well as your license renewal with funds routed through a 529 plan. I am also a certified financial planner, which requires 15 hours of continuing education annually; that can now be paid from a 529.

If clients have a career where they sit for an exam to get a credential, apply for a license to get that credential, or have ongoing continuing education requirements, you might advise them to use a 529 for the tax benefits. The client can be owner, custodian, and beneficiary.

If a client has a 529 with unused funds, they can position it by rolling over the balance to a family member. And the circle is wide! An eligible family member for this purpose includes: spouse, child, stepchild, foster child, father/mother, son/daughter-in-law, father/mother-in-law, aunts and uncles and their spouses, nieces and nephews and their spouses, even first cousins and their spouses.

Overfunding had previously been an issue, but 529s can be rolled over to that wide family circle and tapped to seed the beneficiary's Roth IRA account; check if the 15-year requirement will be an issue. Up to $35,000 of those Roth contributions can come from a 529 account.

For a deeper dive, consider listening to a podcast from the Massachusetts chapter of the Financial Planning Association. They recently interviewed Saving for College's Chris Stack on their 257th podcast: 5 to 9 Things You Don't Know About 529 Plans.

It's time for a mental reset when it comes to 529 plans. Clients (and ourselves!) can avoid paying taxes and snare state tax benefits on the dollars paid for many education-related costs during their lifetime.

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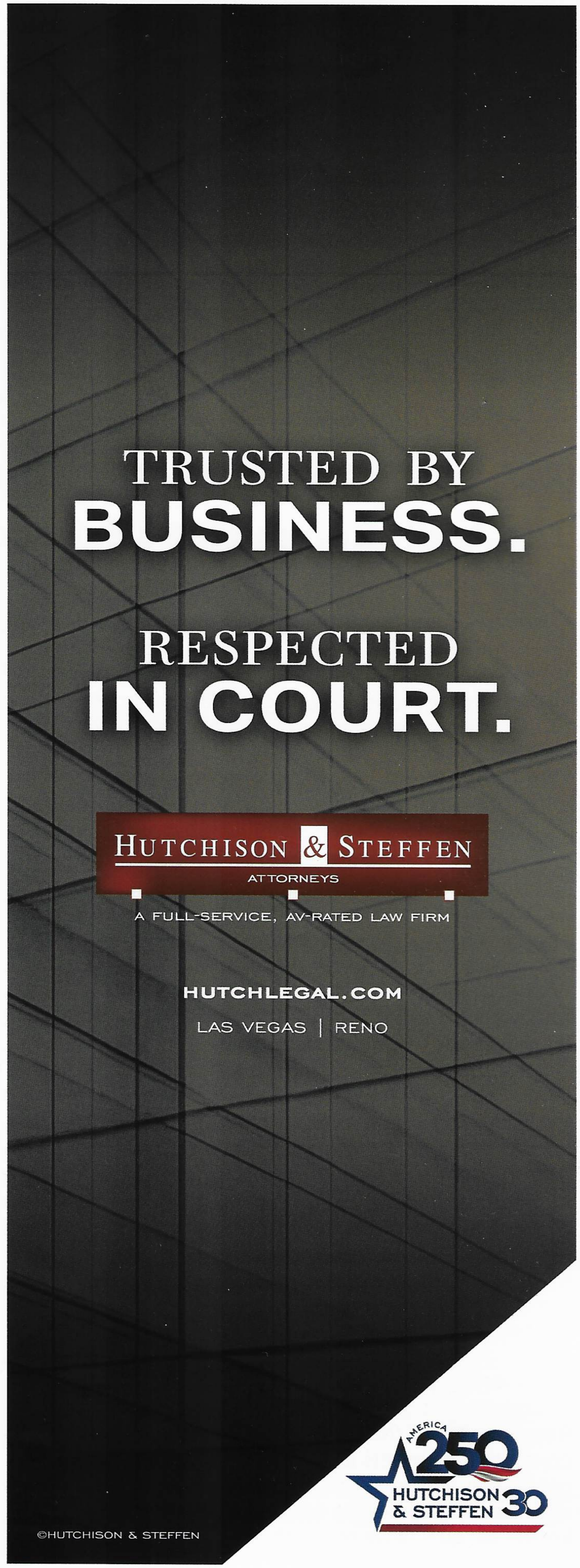

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