

**BCWM**
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529 Plans

A 529 Education Savings Plan has long been a popular way to save for a child's college education. The Tax Cuts and Jobs Act of 2017 expanded the use of 529 Education Savings Plans, making these accounts even more appealing to those saving for future education expenses. Some basic questions many of our clients ask us include:

What is a 529 Education Savings Plan?

A 529 Education Savings Plan is a tax-deferred account, meaning that earnings in the account accumulate tax free. Generally, the account has one owner and one beneficiary (the child). The account owner retains control of the funds, has the ability to select the investments held inside the 529 Plan, and determines when to make distributions from the 529 Plan. If distributions are used to pay for the beneficiary's "qualified education expenses," distributions are free from income tax.

What is a "Qualified" Education Expense?

Qualified education expenses include tuition, fees, books, as well as room and board at an eligible education institution. The Tax Cuts and Jobs Act of 2017 expanded the definition of qualified education expenses to allow for distributions of up to \$10,000 per year to pay for elementary and high school tuition. Although the federal definition of qualified education expenses was expanded to include elementary and high school tuition, some states have not yet adopted the federal definition.

Can I deduct my contributions to a 529 Plan on my income tax return?

Contributions to a 529 plan are not deductible on your federal income tax return. However, over thirty states currently offer some type of state tax incentive for 529 contributions.

What happens to the money if the beneficiary receives a scholarship or does not attend college?

If the beneficiary does not use the funds inside the plan, you may distribute your contributions without tax or penalty. However, the earnings portion of the 529 account may be subject to ordinary income tax and a 10% percent penalty if distributions are not used for qualified education expenses. It is important to note that there are exceptions to the penalty rule.

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An owner can also change the beneficiary to another member of the beneficiary's family without tax consequences.

Why should I consider a 529 Education Savings Plan?

This is one of the rare opportunities to take advantage of a potential triple tax benefit. Contributions may be eligible for a state income tax deduction, earnings inside of the account are not subject to taxation, and distributions are free from income tax if used for qualified education expenses.

How do I learn more?

If you have questions regarding a 529 Education Savings Plan, we at Boyer Corporation Wealth Management would be happy to help answer them. As always, please consult with your tax professional for specific advice related to your personal tax situation.

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