

Tax Benefits of 529 Plans

College Savings Get Boost from Congress

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When it comes to attending college, the expenses start to add up fast. Families planning to send a child off to school have several options to save money – the most popular being the 529 plan. In 2014, assets in 529 plans hit \$247.9 billion – a record amount. ¹ That's a lot of families reaping the tax benefits associated with these accounts, and earlier this year, they were enhanced even more thanks to a bill passed by Congress. Here's a look at those improvements, plus other ways you may benefit from having a 529 plan both now and in the future.

Enhancements

The bill passed by Congress this year makes several changes to 529 plans by:

- Allowing payments from qualified tuition programs for the purchase of computer or peripheral equipment, computer software, or internet access and related services to be used primarily by the beneficiary while enrolled in an eligible educational institution.
- Eliminating the requirement that distributions from a plan be aggregated for purposes of determining the amount includible in a taxpayer's income (i.e. where a beneficiary has received multiple distributions from a plan in the tax year, the portion of a distribution that represents earnings would be determined on a distribution-by-distribution basis, rather than an aggregate basis).
- Allowing a tax-free re-contribution to a plan of amounts refunded to a student by an eligible education institution if the re-contribution is made no later than 60 days after the date of such refund and doesn't exceed the refunded amount.

Tax benefits

Arizona taxpayers who contribute to 529 plans receive tax-savings at the state level. Anyone can contribute – parents, grandparents, aunts, uncles, friends, etc. – and reap the benefits, which include:

¹ Forbes

- Contributions are tax deductible at the state level up to \$4,000 per year for married filing joint and up to \$2,000 per year for single taxpayers.
- Contributions grow on a tax-deferred basis.
- Qualified distributions are exempt from Federal and Arizona income taxes.
- You can change the account beneficiary at any time.
- Assets are not a factor when determining financial aid awards in Arizona.
- Savings can be used on all qualified college expenses including tuition, fees, and room and board at all universities, colleges, private colleges and vocational schools accredited by the U.S. Department of Education.

You should also know ...

While you're probably focused on the tax-savings aspects of the 529 plan, there are a few things you need to keep in mind when it comes to the benefits of the account as well as distributions:

- You cannot take a federal deduction for contributions made to a 529 plan.
- If you take a distribution and don't use it for qualified education expenses, the earnings portion is taxable and may be subject to a penalty of 10%.
- Students must be enrolled at least half-time for room and board expenses to qualify.
- Contributions to the account cannot exceed the amount of money necessary to cover qualified education expenses.

Save even more!

Even with a 529 plan, you may still be able to claim education credits such as the American Opportunity Credit or the Lifetime Learning Credit. Arizona also has tax credits and deductions for grades K-12.

Keep in mind ...

These plans don't stand alone in your overall tax and investing strategies and may not be for everyone. There are many rules and considerations that need to be contemplated that are not covered in this article. Please be sure to contact your Henry & Horne, LLP professional tax

advisers for a more thorough discussion to help determine how a 529 plan may impact your individual situation.

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