



529 PLANS: A QUICK GUIDE

What Are 529 Plans?

Tax-Advantaged Savings Plans:

Designed to save for future education costs.

Types:

- **Prepaid Tuition Plans:** Lock in current tuition rates.
- **Education Savings Plans:** Investment accounts for education expenses.

Key Rules

Contributions:

Must be in cash, with separate accounting for each beneficiary.

Investment Direction:

Limited to twice per year.

No Loans:

Cannot use as loan security.

Contribution Limits:

Must not exceed necessary education expenses.



Distributions

Qualified Expenses:

Tax-free for tuition, fees, books, supplies, and certain room and board costs.

Non-Qualified Expenses:

Subject to income tax and a **10% penalty**, with exceptions.



Tax Benefits

Federal: Tax-free growth and withdrawals for qualified expenses.

Gift Tax:

Contributions up to **\$85,000 (\$170,000 for couples)** can be spread over five years.

State:

Possible tax deductions or credits (varies by state).



New Rule:

529 to Roth IRA Rollovers (Effective 2024)

Conditions:

- **15-year** holding period.
- Contributions must be at least five years old.
- Annual rollover limit matches Roth IRA contribution limit (**\$7,000 for 2024**).
- Lifetime rollover cap of **\$35,000**.
- Direct trustee-to-trustee transfer.
- Same beneficiary for both accounts.



Tax-Free:

Rollovers are not taxed.

No Income Limits:

Not subject to income phaseout limits.

Coordination:

Must align with other IRA contributions.



Example Scenario



John and Mary:

Open a **529 plan** for daughter Emma.



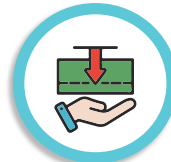
Contributions:

\$10,000/year, totaling \$100,000 **over 10 years**.



Growth:

Account grows to **\$150,000**.



Withdrawals:

\$40,000/year for Emma's college expenses, tax-free.



Rollover:

If unused, up to **\$35,000** can be rolled over to Emma's Roth IRA, tax-free.

This guide provides a snapshot of 529 plans, their benefits, rules, and the new rollover option to Roth IRAs, making it easier to understand and utilize these plans for education and retirement savings.

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