accounts.

May. 01, 2015

It's unanimous: In a rare show of bipartisan support, the Senate Finance Committee (SFC) voted 26 -0 to approve a bill that would improve and extend benefits for Section 529 plan accounts. The bill, introduced by Senator Chuck Grassley (R-IA), closely resembles legislation passed by the full House on February 26.

Now that President Obama has backed off his proposal earlier in the year to reduce tax benefits for 529 plans and to consolidate several tax law provisions relating to higher education, it appears that the chances for enactment of this measure are strong. The president's plan was roundly criticized by both sides of the aisle.

With a Section 529 plan, you can contribute an amount based on a state-imposed

expense. Currently, this cost isn't covered, although "books and supplies" count as qualified expenses. The change reinstates a temporary provision that had allowed computers to be treated as qualified expenses in 2009 and 2010 and makes it permanent.

2. An antiquated distribution aggregation requirement for plan administrators would be removed. This requirement was needed prior to 2001 when all distributions were treated as being taxable. (A temporary change in 2001 to eliminate the tax on distributions for qualified expenses was made permanent in 2006.)
3. Tax relief would be provided if a student has to withdraw from school for illness or other reasons. Under current law, any refunds from the college are subject to immediate tax and a 10 percent penalty. Both the tax liability and the penalty could be avoided by redepositing refunds in a 529 account for the same student or another family member.

Section 529 plans continue to grow in leaps and bounds. According to a recent estimate cited by SFC Chairman Orrin Hatch (R-UT) in a press release on the bill, the total investment in 529 plans around the country now exceeds $247 billion, with an average account of more than $20,000. It appears that both houses of Congress, as well as the president, are climbing on board.