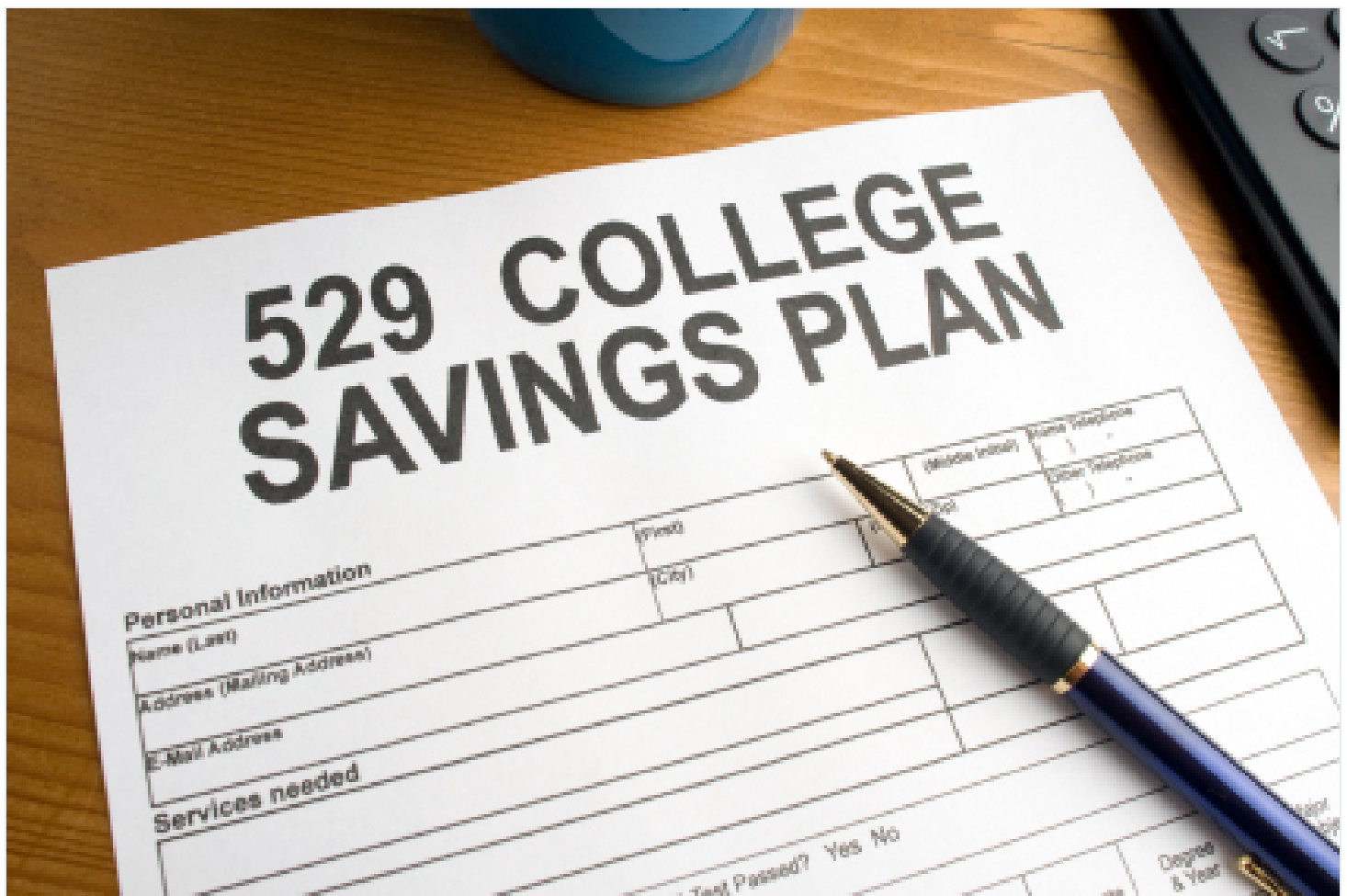


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enrollment at an elementary or secondary public, private or religious school.

Ken Berry • Jun. 12, 2018



In the past, parents often used tax-favored Section 529 plans to build up funds for the college education of their children. Now the new tax law – the Tax Cuts and Jobs Act (TCJA) — expands the scope of these programs. Under the TCJA, you can tap into a Section 529 plan to pay tuition expenses at many elementary and secondary schools.

There are two main types of Section 529 plans used for college funding: Prepaid tuition plans and college savings plans.

1. Prepaid tuition plans: This type of plan is designed to keep pace with the rising

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Usually, such a plan will offer an asset allocation strategy geared to the current age of the child or the year he or she will enter school. For example, the plan may provide more aggressive investments in the early years and switch to more conservative investments over time.

Each state sets the contribution limits for its Section 529 plans. In many states, you can easily salt away the full amount needed to pay for a full ride.

Best of all, with either type of plan, there's no current tax on the build-up of funds within the account for your child. And any distributions are tax-free as long as they are used to pay for qualified expenses like tuition.

Now the TCJA is opening up Section 529 plans to pre-college schooling. Beginning in 2018, the definition of qualified expenses is broadened to include tuition for enrollment at an elementary or secondary public, private or religious school. For instance, if your family has a long legacy of attending at a prestigious high school academy, you can benefit from a Section 529 plan if you send your child to the institution. However, the new law limits the tax-free distributions to \$10,000 a year.

Note that an earlier draft of the TACJA also extended the Section 529 tax breaks to home schooling expenses. But this provision was removed from the final version of the law.

Be aware that transfers to a Section 529 plan for your child are subject to gift tax. Normally, you can give each recipient an amount up to the annual gift tax exclusion without paying any gift tax. The exclusion for 2018 is \$15,000 per recipient (\$30,000 for joint gifts by a married couple). But a special rule allows you to contribute an amount equal to five years worth of gifts to a Section 529 plan in just one year. So you can effectively transfer up to \$75,000 to your child's account (\$150,000 by a married couple) with zero gift tax liability.

The latest changes for Section 529 plans could be significant for some of your clients.

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