

# New Tax Law Expands 529 Savings Plans

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The recent tax reform law expanded 529 savings plans so that they now allow tax-favored savings for K–12 tuition expenses. Parents can now save for both college expenses *and* K–12 tuition – earnings will grow free of *federal* tax and may also receive favorable *state* tax treatment. Current 529 account owners may begin using these funds immediately for K–12 tuition expenses.

**Consult your financial advisor for details and to find out if a 529 plan is a good savings option for K–12 tuition in your specific circumstances.**

## Frequently Asked Questions:

- **What is a 529 Savings Plan?** A 529 Savings Plan is a special savings account managed by states that was originally designed to encourage families to save for college expenses. The earnings grow free of federal tax and many states give state tax deductions for contributions to the account as well as allow earnings to grow free of state taxes. Distributions from a 529 savings account must be used only for qualified expenses or incur a tax and a penalty.
- **What has changed?** The *Tax Cuts and Jobs Act* signed into law on December 22, 2017 expanded qualified expenses to include K–12 private and religious school tuition. Originally, qualified expenses were related only to higher education. The updated law will benefit parents who would like to save for K-12 Christian school tuition for their children.
- **Do the changes mean I'll get the same favorable tax treatment on my earnings in a 529 savings account if I use the funds to pay for K–12 tuition?** Yes, your 529 earnings grow free of federal tax. Many state 529 plans also provide state tax breaks for contributions to and distributions from 529 accounts. For example, Virginia currently allows Virginia taxpayers who are Virginia 529 account owners to deduct their contributions up to \$4,000 per account, per year, with unlimited carry forward to future tax years. Accounts may grow tax-deferred and are tax-free of Virginia taxes when distributions are used for qualifying expenses. For other states, be sure to talk with your state plan administrator or your accountant and confirm the state tax benefits available in your state.
- **How can I use a 529 account to pay for K–12 tuition at ICS?** You can use your student's 529 funds for K–12 tuition expenses incurred after January 1, 2018. Contact your 529 account administrator about how to make a qualifying distribution.
  - Distributions can be sent directly to ICS, or you may be able to have 529 account distribution payments made payable to yourself (i.e., to reimburse yourself for qualifying K–12 tuition expenses you have paid). Distributions payable to ICS must reference the student's name.
  - Any 529 account payments we receive on behalf of your student will be applied to your FACTS account tuition balance. Please allow adequate time for plan distributions to be received at ICS and at least 5 additional business days for payments to be posted to your FACTS account. The maximum distribution for K–12 education is \$10,000 for tuition, per year, per child. We expect that **ONLY** tuition will qualify, not ICS fees or charges for additional services. The breakdown of tuition and fees can be viewed in your FACTS account.
  - **Consult your tax advisor and 529 plan administrator for details. Improper distributions may result in taxes or penalties.**

See also: <https://www.virginia529.com/blog/an-added-benefit-529-funds-can-now-be-used-for-k-12-tuition/>

*This document is based on information available as of September 2018 and is intended to be of a general nature only. It is not intended to provide, and should not be relied on for, tax, legal or accounting advice. Please consult your financial advisor for details specific to your situation.*