From the desk of
Peter S. Muffoletto, C.P.A.

Section 529 Plans Can Now Be Used for Private Elementary and High Schools

The Tax Cuts and Jobs Act (TCJA) has expanded the scope of IRS Code Section 529 from college education tuition expenses to elementary and secondary schools.

The big change within the TCJA legislation is that Section 529 plans are now eligible for pre-college schooling.

Beginning in 2018 the definition of qualified expenses has been broadened to include tuition for enrolment at an elementary or secondary public, private or religious school up to tax-free distributions of $10,000 a year.

Transfers to a Section 529 plan for a child is subject to gift tax.

You can give each recipient an amount up to the annual gift tax exclusion without paying any gift tax.

The gift tax exclusion for is 2018 is $15,000 per recipient ($30,000 for joint gifts by a married couple).

There is a special rule which allows a contribution of an amount equal to five years worth of gifts to a Section 529 plan in just one year which effectively allows you to transfer up to $75,000 to your child's account ($150,000 by a married couple) with zero gift tax liability.

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

Prepaid tuition plans are designed to keep pace with the rising cost of college tuition by currently prepaying into a plan so as to be able to pay the entire future tuition no matter how much the future cost is at that point where the student enters college.

In contrast to a prepaid plan, a college savings plans has no guarantee in regards to future tuition costs but has a larger upside potential due to the fact that this type of plan is in reality an investment program.

Usually that type of plan will offer an asset allocation strategy geared to the current age of the child or the year he or she will enter school.

Each state sets the contribution limits for its Section 529 plans.

In many states you can easily invest the full amount needed to pay for future tuition.

With both types of plans there is no current tax on the build-up of funds within the account for your child, and any distributions are tax-free as long as the funds are used to pay for qualified educational expenses.

We here at Muffoletto & Company believe that the more informed you are in regards to the rules and regulations that affect you the more we can be of service.
Should you have questions relating to any tax or financial matters call at
(818) 346-2160,
or you can visit us on the web at
www.petemcpa.com!

Providing individuals, small businesses, corporations, partnerships, professionals, and other business entities with the necessary guidance and answers for a complex world.