

# Using 529 Savings Plans for K-12 Tuition

*In 2017, Congress expanded the use of 529 savings plans to include K-12 tuition. There are many questions about this policy change, so our organizations teamed up to answer some of the most commonly asked. Since states are still in the process of responding to this federal change, some questions are still unanswered. As states continue to respond, we will regularly update this document.*

## What is a 529 savings plan?

529 savings plans were originally designed to be tax-advantaged plans that help parents save for future college costs. 529 plans are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the Internal Revenue Code. Essentially, a 529 plan allows parents<sup>1</sup> to put money into an investment account for their children's college expenses, and all financial growth on that account is untaxed at the federal level. Parents can contribute money to a 529 account in their own state or contribute to another state's 529 savings account.

- ***Example:** A parent donates \$1,000 after-tax dollars into Aisha's 529 account when she is born. The account is worth \$2,500 when Aisha attends college. If Aisha uses the \$2,500 to pay for qualified higher education expenses, there is no federal tax on the \$1,500 earned in the account.*

## What has changed about 529 savings plans?

The [Tax Cuts and Jobs Act](#) passed in 2017 expanded the use of 529 savings plans so that parents can now use these funds for up to \$10,000 per year per beneficiary for K-12 tuition in addition to college expenses. There are no federally mandated maximum contribution limits, and any financial growth in the account will continue to accrue free of federal income taxes. In states that allow parents to use 529 savings for K-12 tuition, parents can now put as much as they want in the account each year to use for elementary or secondary tuition. However, many states cap the total amount that can be in a 529 account (usually between \$200,000-\$300,000).

## Does the federal expansion of 529 savings plans apply to state tax laws in all 50 states?

Not in every state. For state tax purposes, it is up to each state to determine whether the K-12 expansion will apply – i.e. whether parents can use 529 plans for K-12 tuition and not pay state income tax on the account growth.

- In **26 states plus Washington, D.C.**, legislative changes are not needed or the state has already adopted legislation or changed policies to conform state code to federal code. In these states, families can use 529 plans for K-12 tuition free of state and federal income tax.
- In **nine states**, policy changes at the state level are needed before 529 plans can be used for K-12 tuition free of state income tax. Policymakers in several of these states are already working to make this happen.
- **Six states** have yet to determine how the changes will affect their respective states. In these states, legislation may be needed before 529 plans can be used for K-12 tuition free of state income tax.
- Since 529 plans are designed to create income tax savings, there are no state tax implications in the **nine states** without individual income taxes. In these states, parents can use 529 funds for K-12 tuition free of federal tax.

## What do states need to do to institute the federal changes?

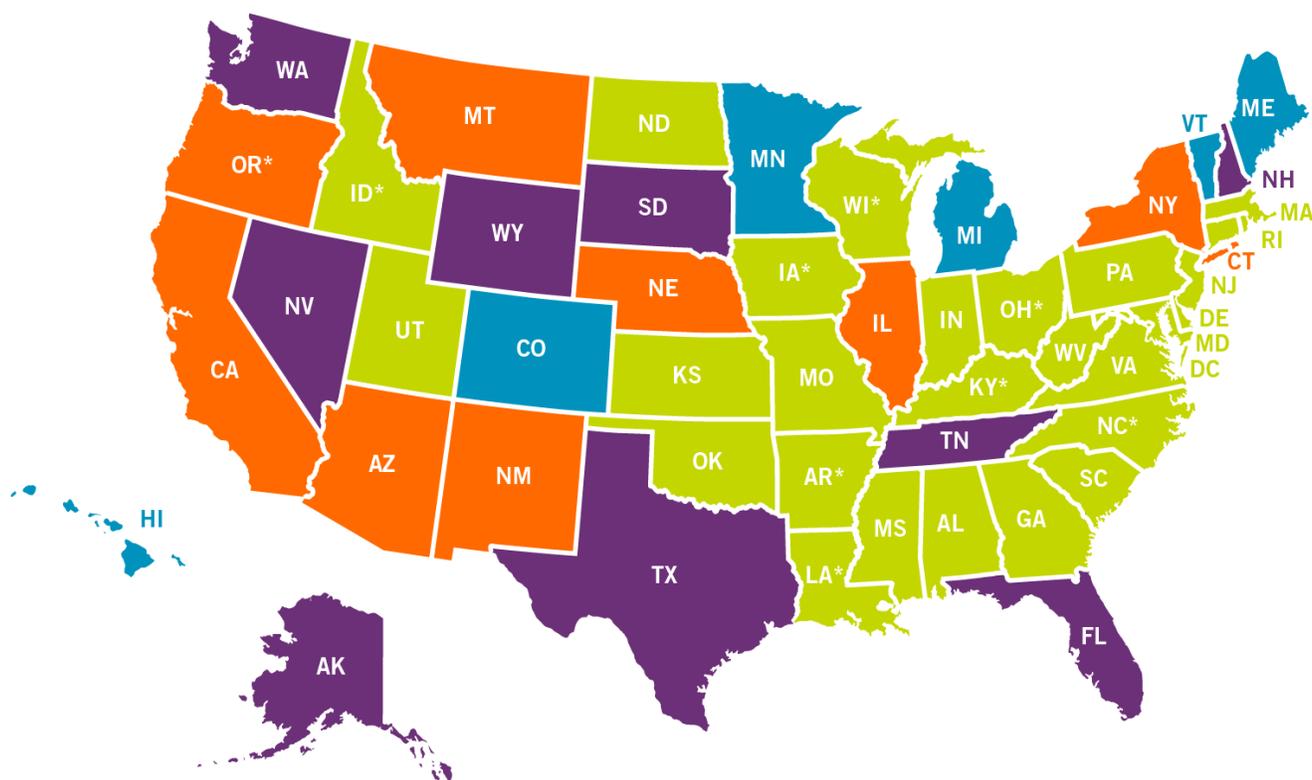
States with tax codes that do not automatically conform to changes in federal code may need to enact legislation and/or regulations that explicitly create a policy by which parents can use 529 plans to pay for K-12 tuition, free of state income tax.

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<sup>1</sup> Parents of beneficiaries are typically the ones who contribute to a beneficiary's 529 account, but an account holder can actually be anyone, including grandparents. Per [IRS guidance](#), anyone can set up a 529 and name anyone as a beneficiary — a relative, a friend, even themselves.



STATE-BY-STATE REQUIREMENTS  
FOR EXPANDING 529 ACCOUNTS TO K-12 TUITION



- Legislative change needed
- No state tax implications (no state income tax)
- No change needed
- State has not yet determined

\* State policy changed since Tax Cuts & Jobs Act passed

**What should parents do if they are interested in utilizing a 529 savings plan for K-12 tuition?**

Parents should talk with tax professionals in their respective states to learn whether they can use 529 savings for K-12 tuition tax-free at the state level. Because this federal change is relatively new, parents should proceed with caution when using their 529 plans for K-12 purposes, and should consult with local experts who can provide state-specific advice.

*Questions parents might want to ask their accountants and/or financial advisors about 529 accounts<sup>2</sup>*

- What are the specific benefits and limitations of a 529 plan in my state?
- Should I wait until my state clarifies its 529 rules before using 529 savings for K-12 tuition?
- What impact does 529 have on college or K-12 financial aid?
- What is the interplay between 529 contributions and gift tax limits?
- How can I superfund my 529 savings account?

<sup>2</sup> <https://agudathisrael.org/529plan>

