

Added Flexibility Makes 529 Plans More Attractive

529 Plans are specialized investment accounts intended to help families save for college by allowing for tax-free growth of funds within the account and tax-free withdrawals for qualified education expenses. Historically, one drawback of 529 plans has been the fact that non-qualified distributions (i.e. withdrawals for anything other than education expenses) are subject to income tax and a 10% penalty on the earnings. Recent changes have expanded the categories of qualified education expenses, adding flexibility and making 529 plans more attractive as planning vehicles.

Expanded Uses of 529 Plans

In addition to tuition expenses, changes under the SECURE Act of 2019, SECURE 2.0 Act, and the One, Big, Beautiful Bill Act (OBBBA) have expanded the use of 529 plans to include:

- **Primary and Secondary School** - 529 plans may be used to pay for tuition and required fees at primary and secondary schools annually. The limit has been increased to \$20,000 for K-12 expenses beginning January 1, 2026.
- **Postsecondary Credentialing Programs** - Distributions to pay for recognized postsecondary credential and apprenticeship programs are also permitted. Testing fees, books, equipment and continuing education fees are also covered expenses.
- **Student Loans** - 529 plans may also be used to repay up to \$10,000 of the beneficiary's student loans and an additional \$10,000 of student loans for each of the beneficiary's siblings. To the extent any loan payment from a 529 Plan is payment of interest, that interest will not be eligible for the student loan interest deduction on the borrower's income tax return.
- **Roth IRA Rollover** - 529 plan beneficiaries can roll over unused funds to a Roth IRA owned by them. Individuals who have owned (or been a beneficiary of) their 529 plan for at least 15 years are allowed to roll over up to \$7,000* per year to their Roth IRA, with a total lifetime rollover limit of \$35,000.
- **K-12 Qualified Expenses** – Beyond tuition, 529 plans may be used to pay additional education related expenses such as books and other educational materials, testing fees, tutoring and educational therapies, and dual enrollment fees.

The ABCs of 529 Plans

529 Plans can be an effective tool to set aside funds for education. Here are some reasons to consider a 529 Plan.

- Contributions can reduce the size of the donor's taxable estate.
- Donors can make 5 years' worth of annual exclusion gifts at one time. However, no other annual exclusion gifts to same recipient are allowed during that 5 year period. If the donor dies during the five years covered by the gift, there is a pro-rata recapture of the donor's annual exclusion.
- A donor can maintain control over distributions if the donor is the account owner.
- Grandparent-owned 529 Plans are not included as a countable asset on a student's Free Application for Federal Student Aid (FAFSA). However, 529 Plans may still be considered countable assets under the CSS system used by many private colleges to determine financial aid.

Advantages of 529 Plans	Disadvantages of 529 Plans
<ul style="list-style-type: none"> • Earnings are not subject to federal or state income tax unless funds are used for non-qualified expenses. 	<ul style="list-style-type: none"> • Investment choices are typically limited.
<ul style="list-style-type: none"> • Many states allow for income tax deductions for a portion of funds contributed to an in-state plan. 	<ul style="list-style-type: none"> • You may only use the investment advisor chosen by the state in which you set up your 529 Plan.
<ul style="list-style-type: none"> • Annual gifts of \$19,000** or less (\$38,000 for married couples) are not subject to gift tax due to annual exclusion. Annual gifting does not affect donor's lifetime exemption. 	<ul style="list-style-type: none"> • Non-qualified distributions are subject to the recipient's income tax rate and a 10% penalty on earnings.

*based on the annual IRA contribution | **based on 2025 annual exclusion amount

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