



529 Savings Plans Offer Exciting New Options for Christian Schools

The recent tax reform law created a great opportunity for Christian schools and families. The *Tax Cuts and Jobs Act* was signed into law December 22, 2017. In a significant step forward that ACSI strongly supported and promoted, the law expanded 529 savings plans so that they now allow savings for K–12 tuition expenses. The maximum distribution for K–12 tuition is \$10,000 per year per child for expenses incurred beginning January 1, 2018.

*This means **current account owners may begin using these funds immediately for K–12 tuition!*** (Be aware that states are still updating their laws so your state tax treatment may not yet be finalized.)

The practical effect of the change is that, beginning January 1, 2018, parents can begin to save for both college expenses *and* for K–12 tuition expenses and the earnings will grow free of federal tax. Special federal tax provisions exist for treatment of gifts to 529 savings plans so that even grandparents or extended family may contribute.

Many state 529 plans also provide breaks on *state* taxes for contributions to and distributions from 529 accounts. **At this early date, most states have not yet reacted to the law’s expansion and account owners will need to watch when and whether their state will allow state tax breaks to apply to K–12 tuition expenses.** For example, many states allow a state tax deduction for contributions to a 529 savings plan. Five states (AZ, KS, MO, MT, PA) allow a state tax deduction for contributions to plans in *any* state, not just at home. In addition, like the federal government, many states do not tax the earnings on savings. Be careful to find out if any of these favorable tax policies will be available in your state for K–12 tuition expenses in the immediate future.

Most state legislatures are meeting in early January, 2018 through the first quarter of the year. Expect to see legislation to clarify state tax treatment of 529 savings accounts for K–12 tuition expenses where necessary. Account owners who wish to make a distribution for K–12 tuition now—before states have updated their laws—should consult with their state plan about the tax implications. Account owners who wish to open a *new* account and begin saving now can let the funds grow until state-level uncertainty is resolved and decide later whether to use the earnings for higher education or K–12 tuition.

The law also made positive changes to the treatment of ABLE (Achieving a Better Life Experience) accounts for families of disabled youth. ABLE accounts are similar to 529 Savings Plans in that they allow parents to save for expenses for disabled youth free of federal tax on the earnings. ABLE accounts also make it possible for families to save without losing their eligibility for means-tested programs on which they rely. The new tax law makes moving funds from a 529 Savings account to an ABLE account a qualified distribution as of January 1, 2018. This gives parents greater flexibility in making the best use of either or both programs.

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What Can Christian Schools Do Now?

- Inform their parents and wider school community of this exciting new opportunity for federally tax-free savings they can use for K–12 tuition.
- Share with their parents and wider school community any information from ACSI in this document and our ongoing updates.
- Watch for updates from ACSI in coming weeks as states continue to implement changes. Visit ACSI's [529 Central](#) for continuing updates and to access many helpful resources.
- Encourage parents and school community members to discuss with their financial planners or accountants whether a 529 savings plan is a good savings option for K–12 tuition in their specific circumstance.
- Pay attention to state-level legislative changes and encourage their legislators to extend beneficial state tax treatment of the plans to K–12 tuition.
- Be aware if their state regulates the amount of time contributions to 529 savings accounts must be invested before the contribution can receive favorable tax treatment. In any case, the length of time for the savings to grow is key.
- Reference this [resource](#) comparing state 529 savings plans.
- Feel free to distribute any of this information in parent letters and at informational meetings.

Below is the text of the relevant portion of the new law:

SEC. 11032. 529 ACCOUNT FUNDING FOR ELEMENTARY AND SECONDARY EDUCATION.

(a) IN GENERAL.—

(1) IN GENERAL.—Section 529(c) is amended by adding at the end the following new paragraph:

“(7) TREATMENT OF ELEMENTARY AND SECONDARY TUITION.—Any reference in this subsection to the term ‘qualified higher education expense’ shall include a reference to expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school.”.

(2) LIMITATION.—Section 529(e)(3)(A) is amended by adding at the end the following: “The amount of cash distributions from all qualified tuition programs described in subsection (b)(1)(A)(ii) with respect to a beneficiary during any taxable year shall, in the aggregate, include not more than \$10,000 in expenses described in subsection (c)(7) incurred during the taxable year.”.

(b) EFFECTIVE DATE. — The amendments made by this section shall apply to distributions made after December 31, 2017.

Frequently Asked Questions

1. 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.

2. 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 Christian school tuition for their children. Parents may now use distributions from their 529 accounts to pay for 2018 Christian school tuition.

3. Do the changes mean I'll get the same favorable tax treatment on my earnings in a 529 savings account if I use the earnings to pay for K–12 tuition?

Yes, your earnings will grow free of federal tax. The states, however, are still adjusting their laws (as of January 2018) and some may—and others may not—allow for state tax breaks when you take a distribution for K–12 tuition. Be sure to talk with your state plan administrator or your accountant and confirm the state tax benefits are available in your state.

4. If I currently have a 529 savings account, may I use it to pay for K–12 tuition at my Christian school?

Yes, as of January 1, 2018, K–12 tuition became a qualified expense and parents can use funds for K–12 tuition expenses incurred after January 1, 2018. The earnings will not be subject to federal tax. However, the states are still adjusting their laws and regulations, so be careful to find out if your state will expand state tax benefits or if it will instead tax one or more parts of your 529 savings, whether the original investment, the earnings or the distribution.

5. When will states make their final decisions regarding 529 savings accounts that are used for K–12 tuition?

That's hard to know. Some states have already decided to give K–12 tuition expenses the same tax benefits as higher education expenses. Others are working on legislative or regulatory updates. Most state legislatures meet in the first quarter of 2018, so we expect many states to make their decisions in that timeframe. But every state is different.

6. I have a 529 savings account and would like to transfer funds to my ABLE account. Is that possible?

Yes, the new tax law makes transfers from a 529 savings account to an ABLE account a qualified distribution. Parents of a disabled young person now have greater flexibility in the use of the two programs.

7. Will ACSI continue to monitor this exciting new development?

Yes, ACSI will be updating information on 529 savings plans and their use for K–12 tuition on an ongoing basis as the federal and state governments make the necessary adjustments the law requires. Visit ACSI's [529 Central!](#)