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#### PERSONAL FINANCE

# Benefits of 529 savings plans expanded with new tax law

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**529 plans are popular and versatile savings vehicles that offer significant tax benefits.**

While these “qualified tuition programs” were originally designed to help people save for college education costs, President Donald Trump’s recently passed tax plan (formally called the Tax Cuts and Jobs Act of 2017) expanded the use of these accounts for another purpose: kindergarten through 12th grade tuition

costs.

More than 30 states, including Kansas and Missouri, offer some sort of state income tax benefit for making contributions to a 529 plan. In addition, any investment earnings in the account are tax-free at both the federal and state levels, assuming the funds are used for qualified expenses.

The new tax law allows for \$10,000 per year per beneficiary to be withdrawn for qualified K-12 tuition expenses. This will provide another savings avenue for families sending their kids to private schools.

Not all state governments are happy about this change, as the expanded benefits may cause more people to take advantage of these plans and reduce state tax revenues as a result. Several state government officials from around the country have expressed concerns that this change could hurt some state budgets at a time when many states are dealing with budget deficits and tough funding choices.

Kansas and Missouri have both conformed to the new federal law. This is a great benefit for families living in those states who are taking advantage of these plans.

However, not all states have automatically followed the federal tax law change when it comes to tax-free withdrawals for K-12 expenses. Anyone considering a 529 withdrawal for K-12 should check their own state's tax laws or consult with a tax adviser.

So what makes 529 plans so popular? Here are some of the key benefits offered by these plans:

- **Income tax benefits:** These accounts offer the ability to save and invest for long-term education funding goals and grow the assets on a tax-free basis. This assumes that withdrawals (and investment gains) are used for qualified education expenses.
- **Many states offer additional state income tax benefits, including both Kansas and Missouri.**

**In Kansas:** A state income tax deduction up to \$3,000 per beneficiary per year by an individual, and up to \$6,000 per beneficiary per year by a married couple filing jointly. This deduction is allowed for contributions to a 529 plan sponsored by any state, not just Kansas.

**In Missouri:** A state income tax deduction up to \$8,000 per year by an individual and up to \$16,000 per year by a married couple filing jointly. Just like Kansas, this deduction is allowed no matter which state sponsors the 529 plan.

- There are a lot of choices. Nearly every state sponsors a 529 plan and some are better than others. Two good resources that offer annual plan rankings to help you find the best plans are Morningstar.com and Savingforcollege.com.

- **Investment Flexibility:** Most plans offer several different investment options, from individual mutual funds to age-based strategies that automatically adjust based on the age of the beneficiary. Most investors can find a plan that meets their desired objective, risk tolerance and desired level of involvement.

- **Control:** The owner of the account maintains control over the account. This is a key difference when compared to a custodial-type account where the beneficiary would take control once they attain legal age. In fact, the owner can even change the beneficiary on the account to another family member (some restrictions apply) if desired.

- There are no income limits on who can take advantage of these plans.

529 plans are a great tool if you want to put money away for future education costs. You can start small and take advantage of the substantial tax incentives to help grow your money over time. The recent tax law changes have expanded the types of expenses where these funds can be used and offer another reason to consider a plan today.

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