

Ohio's 529 Plan: Benefits for Students in Grades K-12

This notice contains general information relating to recent changes in Federal law and Ohio law. For more specific information, parents (as well as grandparents and other benefactors) are encouraged to consult their financial advisor or tax preparer.

What is a "529 plan?"

A 529 plan is a savings plan for families. It is something families do, not something the school does.

Named for Section 529 of the U.S. tax code, a 529 plan is a tax-advantaged investment plan operated by a state to encourage families to save money for educational expenses. These plans were originally intended to help families save for college. The Federal Tax Cut and Jobs Act, passed in 2017, expanded the allowable use of 529 accounts to include withdrawals of up to \$10,000 per year to pay for a students' tuition in grades K-12 of a public or nonpublic (private) school.

What is Ohio's 529 Plan?

When the Federal Tax Cut and Jobs act was passed, Ohio law was not consistent in granting 529 coverage for K-12 expenses. Sub.SB22, effective March 30, 2018, conforms Ohio 529 plans to federal law by expanding coverage to K-12.

Where can I find more information?

The Ohio Tuition Trust Authority manages Ohio's 529 plans. For information on setting up a 529 account, see <https://collegeadvantage.com/>

Although the materials on this website currently are written in the language of higher education, you can download the Ohio 529 Account Application Form, Enrollment Kit, Investment Options, (etc.) from the site.

Who can set up a 529 plan?

Anyone can open a 529 plan with anyone else as a beneficiary. There are no income restrictions on who can invest in a 529 plan or who can be a beneficiary. Each plan has only one designated beneficiary. The money is to be used for the student's education, but the person (parent, grandparent, relative, or other account custodian) who opens the account controls the funds.

Families who reside in any state can open an Ohio 529 plan. The family is not required to live in Ohio, nor is the student required to attend school in Ohio. However, the state where a person pays taxes determines whether he/she actually benefits from the state tax advantages of an Ohio 529 plan.

How much money is required to open a 529 plan?

The Ohio CollegeAdvantage 529 Savings Plan offers low initial and subsequent minimum contributions of as little as \$25.

How do I use the 529 to pay for tuition?

To take advantage of a 529 at the K-12 level, the account-holder simply withdraws money from the plan, transfers the funds to a checking account, and uses it to pay for primary or secondary school tuition. If there are multiple 529 plans for a student, the maximum combined amount that can be withdrawn for K-12 tuition is \$10,000 per student, per calendar year.

NOTE: Under Ohio law, funds from 529 plans can go toward "qualifying educational expenses," as defined by section 529 of the Internal Revenue Code. At the college level, eligible expenses include tuition, mandatory fees, computer equipment and related technology, books, supplies,

and equipment required for enrollment or attendance, and certain expenses for a special needs student. However, according to the IRS informational sheet (*attached*), 529 plans at the K-12 level can be used for **tuition**: i.e., “up to \$10,000 in annual expenses **for tuition** in connection with enrollment or attendance at an elementary or secondary public, private, or religious school.” The IRS makes no mention of other educational expenses at the K-12 level.

Tax matters

Will I pay taxes on my earnings in a 529 plan?

All the money contributed to a 529 plan will grow tax-free, and any or all funds can be withdrawn tax-free, provided that the funds are used for qualifying K-12 or college expenses. As long as the money is ultimately used for the beneficiary’s approved educational expenses, ***growth on the investment is federal income tax-free***. For Ohio taxpayers, such earnings are also ***state income tax-free***. [Example: If a parent contributes \$1,000 after-tax dollars to her son’s 529 plan, and later uses \$1,500 to help pay for his high school tuition, there is no tax on the \$500 earned in the account].

Can I get an income tax deduction for contributing to a 529 plan?

There is ***no federal tax deduction for contributions*** to a 529 plan. Contributions to a 529 plan count as a “gift” for federal tax purposes. More than \$15,000 to a single beneficiary could trigger a “gift tax” on further giving. For 2018, the annual gift limit before a gift tax is triggered is \$15,000 per child or grandchild (\$30,00 for spouses who give jointly). Again, families are encouraged to consult their financial advisor or tax preparer.

However, continuing Ohio law allows a ***state income tax deduction for contributions*** to a 529 plan. The deduction is limited to \$4,000 per beneficiary per year for the taxpayer and the taxpayer’s spouse, regardless of whether the taxpayer and spouse file separate returns or a joint return. Annual contributions exceeding \$4,000 per beneficiary may be applied in ensuing years.

How big can a single 529 plan be?

Each state has its own cap on the total amount that can be in a single 529 savings plan. In Ohio, the total balance limit per beneficiary is currently \$462,000. After that, the account’s earnings can continue to grow, but no more contributions can be put into it. The limit is based on the sum of the current average cost of tuition and current average cost of room and board needed for seven years at the five U. S. highest-cost eligible educational institutions. This amount is adjusted annually.

[06/15/18]



529 Plans: Questions and Answers

Q. What is a 529 plan?

A. A plan operated by a state or educational institution, with tax advantages and potentially other incentives to make it easier to save for college and other post-secondary training, or for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school for a designated beneficiary, such as a child or grandchild.

Q. What is the main advantage of a typical 529 plan?

A. Earnings are not subject to federal tax and generally not subject to state tax when used for the qualified education expenses of the designated beneficiary, such as tuition, fees, books, as well as room and board at an eligible education institution and tuition at elementary or secondary schools. Contributions to a 529 plan, however, are not deductible.

Q. Can I make withdrawals from my 529 plan for tuition at elementary or secondary schools?

A. Yes. As of 2018, the term “qualified higher education expense” includes up to \$10,000 in annual expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school.

Q. Can I make withdrawals from my 529 plan for the costs of computer technology or equipment?

A. A qualified, nontaxable distribution from a 529 plan includes the cost of the purchase of any computer technology, related equipment and/or related services such as Internet access. The technology, equipment or services qualify if they are used by the beneficiary of the plan and the beneficiary's family during any of the years the beneficiary is enrolled at an eligible educational institution.

Q. What does “computer technology or equipment” mean?

A. This means any computer and related peripheral equipment. Related peripheral equipment is defined as any auxiliary machine (whether on-line or off-line) which is designed to be placed under the control of the central processing unit of a computer, such as a printer. This does not include equipment of a kind used primarily for amusement or entertainment. “Computer technology” also includes computer software used for educational purposes.

Q. Is this “cost of the purchase of any computer technology or equipment or Internet access and related services” available for any other education benefit under the tax laws?

A. No, it is only for 529 plan withdrawals. Such costs are generally not qualifying expenses for the American opportunity credit, Hope credit, lifetime learning credit or the tuition and fees deduction.

Q. How long have 529 plans been around?

A. Congress created them in 1996 and they are named after section 529 of the Internal Revenue code. “Qualified tuition program” is the legal name.

Q. Can anyone set up a 529 plan?

A. Yes. You can set one up and name anyone as a beneficiary — a relative, a friend, even yourself. There are no income restrictions on either you, as the contributor, or the beneficiary. There is also no limit to the number of plans you set up.

Q. Are there contribution limits?

A. Yes. Contributions can not exceed the amount necessary to provide for the qualified education expenses of the beneficiary. If you contribute to a 529 plan, however, be aware that there may be gift tax consequences if your contributions, plus any other gifts, to a particular beneficiary exceed \$14,000 during the year. For information on a special rule that applies to contributions to 529 plans, see the instructions for Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return.

Q. Are there different types of 529 plans?

A. There are two basic types: prepaid tuition plans and savings plans. And each state has its own plan. Each is somewhat unique. States are permitted to offer both types. A qualified education institution can only offer a prepaid tuition type 529 plan.

Q. Am I restricted to my own state’s 529 plan?

A. No. Your state’s 529 plan may offer incentives to win your business. But the market is competitive and you may find another plan you like more. Be sure to compare the various features of different plans.

Q. Who controls the funds in a 529 plan?

A. Whoever purchases the 529 plan is the custodian and controls the funds until they are withdrawn.

Q. Each 529 plan account has one designated beneficiary. What does that mean?

A. A designated beneficiary is usually the student or future student for whom the plan is intended to provide benefits. The beneficiary is generally not limited to attending schools in the state that sponsors their 529 plan. But to be sure, check with a plan before setting up an account.

Q. Can I change the beneficiary of a 529 plan I have set up?

A. Yes. There are no tax consequences if you change the designated beneficiary to another member of the family. Also, any funds distributed from a 529 plan are not taxable if rolled over to another plan for the benefit of the same beneficiary or for the benefit of a member of the beneficiary's family. So, for example, you can roll funds from the 529 for one of your children into a sibling's plan without penalty.

Q. What is an eligible educational institution?

A. An eligible educational institution is generally any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education. Note that, beginning in 2018, the term "qualified higher education expense" includes expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school.

Q. I have not set up a 529 plan for my child. Can I start one now and take advantage of this new computer benefit?

Answer: You can start one anytime. But the benefit of a 529 plan comes with the tax-free withdrawal of earnings that build up in the plan based on the contributions made. Like other types of savings accounts, earnings are usually a function of time. A 529 plan which is set up while the student is already enrolled in college or in other postsecondary education may not accrue enough earnings to be of immediate benefit. However, that doesn't mean that such a student wouldn't benefit from a 529 plan as his or her postsecondary education continues.

Q. Where can I find more information about 529 plans?

A. A good source is IRS Publication 970, Tax Benefits for Education.

Q. Is setting up a 529 plan for my child right for me?

A. Only you can figure that out. 529 plans are not for everyone, and are also not the only option available for paying for college. Setting up a 529 plan is an investment decision, which means both the benefits and drawbacks must be considered, along with alternative ways of accomplishing the same thing. There are many independent sources of information on 529 plans. Also, you may want to consider consulting a trusted tax professional or financial planner.

Related Items:

- Fact Sheet 2009-12, How 529 Plans Help Families Save for College; and How the American Recovery and Reinvestment Act of 2009 Expanded 529 Plan Features
- IR-2009-78, Special IRS Web Section Highlights Back-to-School Tax Breaks; Popular 529 Plans Expanded, New \$2,500 College Credit Available
- Tax Benefits for Education: Information Center