



What Does Tax Reform Mean for '529 Rules?'

By Andy Hoffman

In this second commentary on the recently passed Tax Cuts and Jobs Act tax reform legislation, Commerce Trust Company Financial Planning Analyst Andy Hoffman, CFP®, focuses on the Internal Revenue Service Code rules governing 529 plans, tax-advantaged savings plans originally created to encourage saving for future college costs. The scope of 529 plans has now been greatly broadened by the new tax law, allowing families



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to use state-sponsored 529 college savings plans to pay for expenses such as tuition, books and tutoring for kindergarten through high school.

Q. What are the advantages and uses of 529 accounts?

A. Up until this year, 529 accounts were tax-advantaged savings plans used strictly to pay for college expenses. Dollars contributed grew tax-free, and distributions were also tax-free if used for college expenses. Contributions to the accounts were also tax deductible in certain states.

Q. How did the tax bill change the rules regarding 529 accounts?

A. The above rules remain untouched; however, 529 accounts can now also be used to pay for elementary and high school education. Up to \$10,000 annually can be distributed tax-free per child if used for these expenses.

An important cautionary point to remember: The change in law was made at a federal level, but not all states follow the federal definition for 529 accounts.



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Some states, Illinois for example, define the use of 529 accounts as solely for "college." Check with your plan before making any distributions for elementary or high school expenses as there could be unfavorable consequences at the state tax level.

Q. I was planning to use my 529 account strictly for college expenses. Should I consider using some of the funds for grade school or high school expenses?

A. Just because the option is available does not always mean it is a good idea. Each person's situation is different. A 529 account's main advantage is it allows the tax-free growth of money over time for future expenses. Distributing funds early for grade school or high school decreases the growth potential. The more money



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distributed earlier in the beneficiary's lifetime, the less time the money has to grow inside the 529 account. If a beneficiary has more than enough money saved inside a 529 account for college, then it might be an option to consider withdrawing the funds for the grade school or high school expenses. If it is allowed by their state of residence, taxpayers might consider depositing and distributing funds in the same year to take advantage of potential state tax deductions. It is also yet to be determined if private institutions will take into account 529 balances when determining financial aid benefits.

Q. What else should I know if I plan to use a 529 account for K-12 grade expenses?

A. One must also take into consideration the time horizon for the expenses and how the account is invested. Many individuals utilize the "age-based" investment option within 529 accounts. Similar to a retirement target-date fund, these investments become more conservative as the beneficiary gets closer to



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college when the funds will be needed. Because the time horizon for elementary school or high school is much shorter, it might be sensible to carve out a portion of the account and give it a more conservative allocation. Opening a separate account dedicated for K-12 expenses might be another solution.

Q. Who can I contact to evaluate my options?

A. As with all other financial decisions, it is important to review how using a 529 account in this capacity fits into your overall financial plan. With the new year upon us and a new tax landscape to maneuver, it is an opportune time to meet with your advisor and review your goals and path forward.

You can certainly contact your Commerce relationship manager to start the conversation regarding how the new rules may impact your situation. It is important to contact your tax advisor to review all available options before making a decision. If you would like to discuss your financial planning options with a Commerce Trust



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financial planner, just email Andy Hoffman at andy.hoffman@commercebank.com, or call this toll-free number, 800-892-7100, ext 1-7362.

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Andy is a private client advisor for Commerce Trust Company. He serves as a consultant and relationship manager providing clients with personalized objective advice and oversight across all of our services, including trust administration, financial advisory services, private banking, and investment management. Andy facilitates all aspects of relationship management for the client team, including administering complex trusts, maintaining client communication, and coordinating with internal and external partners to deliver a superior client experience. He joined Commerce in 2016 with ten years of industry experience. Andy received his bachelor of science degree in finance/economics and MBA with a concentration in finance from Rockhurst University. He has achieved the designation of CERTIFIED FINANCIAL PLANNER™. Andy is a member of St. Ambrose Catholic Church and the Crusaders Club at St. Ambrose.



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