



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](#) [PDF](#), 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

- [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](#)