Section 529 education savings plans

Wealth Management

What is a Section 529 plan?

Also known as qualified state tuition programs, 529 plans are state-sponsored, tax-advantaged investment programs that help you save for your child's education. Assets can be withdrawn from the plan federal income tax-free when used for qualified education expenses.

Qualified state tuition programs, given special tax status under Section 529 of the federal Internal Revenue Code, generally fall into two categories: (1) prepaid tuition plans and (2) tuition savings plans.

1. Prepaid tuition plans

The prepaid tuition plans, sometimes called guaranteed savings plans, allow for the pre-purchase of tuition based on today's rates and are then paid out at the future cost when the beneficiary is in college. This plan protects you from the rising costs of college education—the return on your investment is the difference between the college cost when your child attends and the prepaid tuition cost. These plans are not offered through RBC Wealth Management.

2. Tuition savings plans

Tuition savings plans allow you to contribute to an investment pool—consisting of stock/bond mutual funds and ETFs. The growth in tuition savings plans is a result of the market performance of the underlying investments. Most savings plans offer a variety of age-based investment options with underlying investments becoming more conservative as the beneficiary gets closer to enrolling in college.

What are 529 qualified expenses?

Money saved in a 529 plan can be used to pay for certain expenses associated with education. For college or other post-secondary training institutions, this includes tuition and some room and board expenses. Computers, related equipment and services are also considered qualified expenses if they are used primarily by the beneficiary while the beneficiary is enrolled at an eligible higher education institution.

Historically, qualified expenses were limited to higher education but due to a federal law change in 2025, up to $20,000 annually for K-12 tuition and other qualified educational expenses is now included. A 2019 tax law change expanded the qualified education expenses to include student loan repayment and apprenticeship programs.

What's changed?

With the signing of the One Big Beautiful Bill Act in July of 2025, 529 college savings plans now offer additional K-12 benefits.

You can now use up to $20,000 per year of 529 plan funds tax-free for a wider range of K-12 educational expenses, such as:

- Tutoring services (not just tuition)
- Standardized test fees (SAT, ACT, AP exams)
- Test prep classes and materials
- Curriculum materials, books and online educational resources
- Educational therapies for students with disabilities

Who can be a beneficiary?

You can establish an account for yourself, your child, grandchild, spouse, another relative or even someone not related to you and the beneficiary may be of any age.

What are the benefits of 529 plans?

Unlike some other education savings products, 529 plans have no adjusted gross income limits. Anyone can establish and contribute to a 529 plan—contributions can always be withdrawn federal income tax-free, while the earnings can be withdrawn federal income tax-free if the proceeds are used for qualified expenses.[1]

Who controls the assets?

You maintain control of the plan's assets throughout the life of the account. You may withdraw funds if not used for qualified expenses, although this withdrawal is subject to a penalty (typically 10%) on the investment gains from the plan. In addition, if the beneficiary dies, becomes disabled or receives a college scholarship, the contributor can withdraw the funds without penalty. They are still subject to ordinary income taxation at the contributor's rate, however.

You have flexibility

You can transfer to another 529 plan or change investment options without changing the beneficiary. You are limited to one rollover in a 12-month period and two investment changes per calendar year.

What about state taxes?

Depending upon a particular state's program, certain state or local tax advantages may be available to resident participants. Some states allow the contributor to deduct contributions on a state tax return, while other states may forgo the tax benefit and may instead offer matching grants. Consult your tax advisor for more information on your state's tax deduction requirements. Carefully consider any tax benefit that your state plan may offer before investing in a plan offered by another state.

What are the gift tax advantages of 529 plans?

Normally, a gift of more than $19,000 made by an individual to a single person in one year is subject to federal gift tax. 529 plans allow you to accelerate up to five-years' worth of the annual exclusion amount by contributing up to $95,000 per beneficiary ($190,000 for married couples filing jointly) in the first year of the five-year period. Any additional gifts during this period may be subject to federal gift tax. Portions of the accelerated gift may also be subject to an add-back feature of the gift in the event of death in the prior five-year period. You must elect to treat the entire gift as a series of five equal annual gifts.

What if the beneficiary does not attend college?

You can name another member of the beneficiary's family—the original beneficiary's sibling, parent, child or other family member—as the new beneficiary of the account without any income tax consequences. If the new beneficiary is of a younger generation in the family than the original beneficiary, a federal generation-skipping gift tax may apply for the year in which the beneficiary change is made. In this situation, you should consult your tax advisor.

529 Roth IRA rollover option

Since 2024, eligible 529 plan account owners can roll over up to $35,000 (a lifetime limitation applicable to each beneficiary) from their 529 plan to a Roth IRA owned by the plan's designated beneficiary. These rollovers are subject to the annual contribution limits and the 529 account must have been open for the beneficiary for more than 15 years. This provision provides the opportunity to retain family savings and help the beneficiary save for retirement without penalties.

How much will I pay for a 529 plan?

Like mutual funds, 529 plans may charge a sales charge. In addition, you may pay an annual fee for participating in the plan. You will also pay administrative and management fees that are incorporated into the price of the investment product much like the expense ratio of a mutual fund. Consult the plan documents for a more detailed explanation of the fees.

How can I get additional information regarding 529 plans?

Contact your RBC Wealth Management financial advisor.

For more information regarding college savings plans, please visit www.collegesavings.org. Participation in a 529 Plan does not guarantee the investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses. State programs vary and therefore you should carefully review individual program documents before investing or sending money. Federal income tax on the earnings and a 10 percent penalty on distributions for non-qualified expenses may apply. RBC Wealth Management is not a tax advisor. All decisions regarding the tax implications of your individual investments should be made in connection with your independent tax advisor.

[1] For further information on qualified higher education expenses, please consult IRS publication 970, Chapter 8: Qualified Tuition Program.

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