

## TAX SAVINGS ON TUITION

### **529 Savings Plan That Can Be Used for K-12 Tuition**

The recent tax reform law created a great opportunity for Christian school families. The *Tax Cuts and Jobs Act* was signed into law December 22, 2017. In a significant step forward, the law expanded 529 savings plans so that they now allow savings for K–12 tuition expenses. The maximum distribution for K–12 tuition is \$10,000 per year per child for expenses incurred beginning January 1, 2018.

*This means **current account owners may begin using these funds immediately for K–12 tuition!***

The practical effect of the change is that, beginning January 1, 2018, parents can begin to save for both college expenses *and* for K–12 tuition expenses and the earnings will grow free of federal tax. Special federal tax provisions exist for treatment of gifts to 529 savings plan so that even grandparents or extended family may contribute.

Ohio also provides a break on *state* taxes for contributions to and distributions from Ohio 529 accounts. Ohio 529 Plan allows up to \$4,000 per beneficiary per year from your State of Ohio taxable income.

Parents are encouraged to discuss with their financial planners or accountants whether a 529 savings plan is a good savings option for K–12 tuition in their specific circumstance.

### **Frequently Asked Questions**

#### **1. What is a 529 Savings Plan?**

A 529 Savings Plan is a special savings account managed by states that was originally designed to encourage families to save for college expenses. The earnings grow free of federal tax and many states give state tax deductions for contributions to the account as well as allow earnings to grow free of state taxes. Distributions from a 529 savings account must be used only for qualified expenses or incur a tax and a penalty.

#### **2. What has changed?**

The *Tax Cuts and Jobs Act* signed into law on December 22, 2017 expanded qualified expenses to include K–12 private and religious school tuition. Originally, qualified expenses were related only to higher education. The updated law will benefit parents who would like to save for Christian school tuition for their children. Parents may now use distributions from their 529 accounts to pay for 2018 Christian school tuition.

#### **3. Do the changes mean I'll get the same favorable tax treatment on my earnings in a 529 savings account if I use the earnings to pay for K–12 tuition?**

Yes, your earnings will grow free of federal tax and the State of Ohio allows a \$4,000 tax deduction.

#### **4. If I currently have a 529 savings account, may I use it to pay for K–12 tuition at my Christian school?**

Yes, as of January 1, 2018, K–12 tuition became a qualified expense and parents can use funds for K–12 tuition expenses incurred after January 1, 2018. The earnings will not be subject to federal tax.

**5. Are there any special tax benefits for Ohio Taxpayers and is there a specific amount of time that I need to have my money in a 529 Savings Account?**

Little is stopping you from putting your money through a 529 account for a few weeks to take a deduction on your State income Taxes. If you are an Ohio taxpayer, you are eligible to deduct up to \$4,000 of contributions per beneficiary, per year from your State of Ohio taxable income, with unlimited carry forward. You do not have to be the account owner to deduct contributions from your State of Ohio taxable income. The benefit is per contributor or married couple.

**6. For more details check out: [www.collegeadvantage.com](http://www.collegeadvantage.com)**

**\* Parents, I encourage you to discuss 529 savings plans with your accountant or financial planner. There is potential for significant savings.**