Qualified State Tuition Program Basics

Eligibility:

There are no income or age restrictions on participating in a qualified state tuition program, also known as a 529 plan. In addition, some state plans are available to non-residents of that state.

Contributions:

The maximum amount that can be contributed to a 529 plan varies from state to state, but can be substantial.

Deductibility:

Contributions to a 529 plan are not deductible for federal income tax purposes. Some states, however, allow residents to deduct contributions from state tax returns.

Earnings:

Earnings on 529 plan contributions grow tax free for as long as the money remains in the plan.

Distributions:

Qualified distributions: If used to pay for qualified higher education expenses (e.g., tuition, fees, books, supplies, computers and computer technology), distributions from both state-sponsored and privately-sponsored tuition plans are free from federal income tax. In addition to being used to pay for qualified college education expenses, up to a $10,000 distribution may be taken each year to pay expenses incurred by the attendance of a designated beneficiary at a public, private or religious elementary or secondary school.

Non-qualified distributions: The earnings portion of the distribution is subject to federal income tax plus a 10% penalty tax.

Flexibility:

- The donor remains in control and decides when withdrawals are taken and for what purpose.
- Amounts can be rolled over tax free from one 529 plan to another as often as once every 12 months without the need to change beneficiaries. Rollovers may also be made from a 529 plan to an ABLE program, which is a tax-favored savings program for disabled individuals, as well as to a Roth IRA plan for the beneficiary of the 529 plan.
- States offering prepaid tuition plans generally will allow the value (as determined by the state) to be transferred for use at a private or out-of-state school.
- The qualified beneficiary of the plan can be changed at any time.
- While subject to income tax and possibly a penalty tax (see above), non-qualified withdrawals can be made from the plan for any purpose.