BAIRD
Private Wealth Management

529 College Savings Plans

Frequently Asked Questions

529 Frequently Asked Questions touch on what is a 529, 5 year gift averaging, treatment of non-qualified withdrawals, circumstance of when the 10% penalty is waived, what is a qualified education expense & more.

Education Planning

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What is a 529 plan?	A 529 College Savings Plan is a qualified tuition program, created by Section 529 of the Internal Revenue Code in 1996, which is operated by a state or educational institution. Savings plans allow participants to save money on behalf of a designated beneficiary for qualified higher education expenses (QHEE) or qualified education expenses (QEE). Your investment grows tax-deferred, and distributions to pay for the beneficiary's college costs are federal tax-free.
Does the 529 plan guarantee my child college admission?	No. Your child will need to meet entry requirements of the individual colleges or universities.
Do 529 savings plans have income limitations?	There are no income limitations on a person's ability to contribute to an account.
Who can be a beneficiary?	Any individual, including yourself, may be named as a beneficiary. The beneficiary must be a U.S. citizen or legal U.S. resident. A trust or other entity cannot be named as a beneficiary.
Are there any age limitations?	There are no age limitations for participating in 529 college savings plans. The beneficiary of a 529 savings plan may be any age. And the assets are not turned over to the beneficiary at age of majority. The account owner who controls and owns the assets must be at least 18 years.
Is there a federal tax deduction for contributions?	No. Contributions to a 529 college savings plan are made with after-tax dollars. Some states offer a state tax credit or deduction for contributing.
What are the federal income tax advantages?	All contributions to 529 plans grow tax deferred; allowing 529 participants to take advantage of the power of tax deferred compounding. Distributions to pay for the beneficiary's college costs are federally tax-free. Please see the next page for what are considered "qualified higher education expenses" and "qualifed education expenses".
Can my spouse and I set up a joint account?	Some plans do allow joint ownership. Most 529 plans only permit one individual to establish an account. But each spouse can establish separate accounts for the same beneficiary. It is recommended you assign a successor owner in case the owner should pass away. You can name your spouse as the successor owner.
Why should I name a successor owner?	The account owner is strongly encouraged to designate a successor owner at the time the 529 account is established. If the original account owner dies or is declared legally incompetent, the successor owner becomes the account owner. Some Program Managers will make the beneficiary the new account owner if the account owner dies and no successor owner had been named. Other Program Managers may require the account to go to probate. The account owner can add, change or revoke the designation of a successor account owner.

What type of assets can I contribute to a 529 plan?	529 plans can only be funded with cash. You cannot contribute securities or other property. All initial purchases must be done with a check, wire or ACH & application to the 529 Fund Company.
Can someone else contribute to my 529 account?	Yes. Third party contributions (i.e. those made by non-owners), can be made via check written to the Plan, online, if the plan allows the account owner to share a link with online contribution instructions or purchase a Gift of College gift card. Please note that only the account owner can make decisions regarding the account, including taking withdrawals from the account, changing the account's investments and changing the beneficiary.
What are the gift tax advantages of an account?	Contributions made to a 529 plan are considered present interest gifts. Normally, a gift of more than $18,000 (in 2024) to a single person in one year is subject to federal gift tax. However, with a 529 plan, you can make a gift of up to $90,000 in one year (or you and your spouse can make a joint gift of up to $180,000) without triggering the tax. To do this you must elect to treat the entire gift as a series of five equal annual gifts, and you may not make additional gifts during the five-year period.
Do I or the beneficiary have to live in the state to participate in that state's plan?	No; generally, an individual may invest in any state's plan and use the proceeds for any eligible educational institution in any state. However, favorable tax treatment for investing in a 529 College Savings Plan may be limited to investments made in a 529 plan offered by your home state. Some states do require that the participant or beneficiary be a resident to participate. Please consult your tax advisor, your advisor or contact your home state's college savings plan to learn more about any state tax or other benefits that might be available in conjunction with an investment in your in-state 529 plan.
Can I change the beneficiary on the account?	Yes; the account owner can change the beneficiary at any time. To avoid federal income tax and a 10% federal tax penalty on earnings, the new beneficiary must be a member of the family of the previous beneficiary, as defined by federal tax law, which includes first cousins. If the new beneficiary is a generation lower than the old beneficiary, the change will be treated as a taxable gift by the old beneficiary to the new beneficiary. The annual gifting exclusion can be applied. Generation-skipping transfer tax will apply if the new beneficiary is two or more generations lower than the old beneficiary.
Can I use my account to pay for educational expenses at any college?	Generally, your account can be used nationwide at any post-secondary school that is eligible to participate in federal financial aid programs – including public universities, private colleges, graduate schools, and vocational-technical schools, as well as foreign schools that have been assigned a federal school code. Use this website to look up a particular school: https://www.savingforcollege.com/eligible-institutions. As of 1/1/18 distributions of up to $10,000 annually used to cover tuition only for K-12 at public, private or religious school are treated as a qualified distribution at the federal tax level. If you use the funds to pay for costs at a non-eligible institution the earnings portion of the distribution will be subject to a 10% penalty and any applicable state and federal income taxes.
Does it matter when I take a distribution?	Yes. 529 distributions need to be taken in the same calendar year that you pay for qualified higher educational expenses (QHEEs) or qualified education expenses (QEEs), otherwise the distribution will be considered non-qualified and subject to a 10% penalty and any applicable state and federal income taxes on the earnings portion of that withdrawal.
Can I withdraw the money in my account at any time?	Yes and No. You can withdraw all or a portion of your account at any time for any purpose. However, withdrawals not used for qualified expenses will be subject to a 10% penalty and any applicable taxes on the earnings portion of the distribution. 529 account distributions and payment of qualified expenses must occur within the same calendar year.

What can the funds be used for to be considered a qualified distribution?	Qualified higher education expenses (QHEE) at any accredited post-secondary institution include: tuition, mandatory fees, room and board (on or off campus, including living at the parent's home and the student must be attending school at least ½ time), books, supplies, equipment and computers, computer equipment, internet services and software required for enrollment. Under current law transportation or personal expenses are not considered QHEE, although they may be considered part of the "cost of attendance" for federal financial aid purposes. **NEWER:** Qualified education expenses (QEE) include K-12 tuition up to $10,000 annually per beneficiary at public, private or religious schools, fees, books, supplies, and equipment required for the participation of a designated beneficiary in an apprenticeship program registered and certified with the Secretary of Labor under section 1 of the National Apprenticeship Act and distributions used to repay principal and/or interest on qualified education loans limited to $10,000 over a lifetime for a 529 plan beneficiary and $10,000 for each of the beneficiary's sibling. *NOTE: 529 plan distributions used to pay for K-12 tuition, apprenticeship programs and/or student loan debt come out federally tax free but may be treated as non-qualified at the state tax level if your state has not conformed to the new federal tax codes. A state may conform to one of these, but not all. Please check your state rules, your plans program description or tax advisor.*
What is the maximum amount that I can contribute?	You can make contributions to the account until the total value (contributions and earnings) of all accounts for that beneficiary equals the maximum level set by the plan. Once the limit is reached, no additional contributions are permitted. However, your accounts can continue to grow. Check with the specific 529 plan to learn more about the plan's maximum contribution amount per beneficiary.
How is the maximum contribution limit determined?	The Internal Revenue Code (IRC) requires that investments in the Plan be used to meet realistic qualified education expenses for a named beneficiary. Each state sets a maximum limit based on the cost of attending the most expensive school in the state for 5 years.
What impact does a 529 owned by the parent or student have on federal financial aid?	A 529 savings account is treated as an asset of the account owner in determining federal financial aid eligibility. 529s owned by the parent or student are treated as an asset of the parent on the FAFSA form meaning that the expected family contribution towards your child's college costs will include 5.6%, or less, of the value of the 529 account for each academic year. Other assets owned in your child's name are assessed at 20%. QHEE or QEE distributions from a 529 are tax-free and don't count as income or impact your student's financial aid eligibility in a future year.
What is the effect of a grandparent (or other non-parent) owned 529 on financial aid?	**Under previous law,** although the asset itself was not considered, distributions from a 529 account owned by a non-parent, typically a grandparent, to pay qualified expenses was treated as income to the student/applicant for financial aid purposes and resulted in reducing the financial award by 50% of that distribution amount in a future year. The FAFSA does a prior-prior year look back on income/aid. So under previous law if a grandparent paid for the student's freshman year from a 529 say $20,000 in 2018, then when the student applied for aid for the 2020-2021 school year, 50% of the $20,000 would be considered income or outside aid to the student and reportable on the FAFSA. **Under the new law under the Consolidated Appropriations Act of 2021 bill** enacted in December 2020, FAFSA underwent significant changes as part of the FAFSA Simplification Act including eliminating non-taxable aid given to the student which includes distributions from a grandparent-owned 529 account. Certain types of untaxed income, such as cash support and money paid on the student's behalf, will no longer be reported on the FAFSA. Cash support can occur, for example, when a grandparent gives a gift to their grandchild to help them pay for college or when the family takes a qualified distribution from a grandparent-owned 529 college savings plan. The exclusion of cash support is planning to be effective with the **2024-25 school year FAFSA**, which is based on 2022 income, **so distributions from grandparent-owned 529 plans in 2022 will not affect financial aid for 2024-25 and going forward, unless the change is delayed by the U.S. Department of Education or the law is changed.**

Can I change the account owner on my 529 account and will this be a gift or taxable event?	The 529 regulations are silent on “lifetime” account owner changes (i.e. a change for reasons other than death or incapacity of the owner). Therefore, most 529 Program Managers (PM) permit a “lifetime” change of owner. All but one program manager (Fidelity) will treat this as qualified (i.e. not subject to the 10% penalty and income tax on the earnings portion of the transfer). The change of owner is not treated as a gift to the new owner.
Can I change my account’s investment allocation?	Yes, you can change investments twice per calendar year or when you change the beneficiary. Thanks to the provision under the Achieving a Better Life Experience (ABLE) Act of 2014 signed into law by President Obama on 12/19/14, effective 1/1/15, 529 Account Owners are able to change the investment option in an account two times per calendar year.
What happens if I change my mind about investing in the program and withdraw the funds?	You can withdraw the funds at any time. But if you don’t use the money to pay for qualified expenses, the investment earnings will be subject to a 10% penalty as well as both state and federal income taxes – at the rate of whoever receives the distribution.
Can I contribute to both a Coverdell Education Savings Account (ESA) and a 529 Plan in the same year?	Yes, you can contribute to both a Coverdell Education Savings Accounts (ESA) and 529 plans in the same year. Annual gifting limits do apply.
What if my beneficiary receives a scholarship?	If your beneficiary earns a scholarship your options are: • Use the funds to pay for qualified educational expenses that are not covered by the scholarship. • Withdraw the amount of the scholarship without incurring the 10% federal excise tax penalty (but you will have to pay income taxes on the earnings portion of the refund). • Leave the funds in the account for use at a future date (such as an advanced degree) • Change the beneficiary to another member of the beneficiary’s family.
What if my beneficiary does not go to college or what if I have leftover funds?	If your beneficiary does not go to college or you have leftover funds, you have 3 options: 1. Leave the money in the account in case the beneficiary subsequently decides to attend college including undergraduate and graduate school. 2. Withdraw the money from your account and pay both a 10% penalty and income taxes on your earnings 3. Leave the money in the account and select a new beneficiary (The new beneficiary must be considered a family member to the current beneficiary) 4. Consider rolling leftover funds to the beneficiary’s Roth IRA. Restrictions apply. See page 5 for rules. Federal law mandates that a 10% penalty and income taxes on the earnings portion of a non-qualified withdrawal be assessed. In the case of the beneficiary’s death, disability, or receipt of a scholarship the federal 10% penalty is waived.
I received a refund from the school. Can I recontribute the funds into my account?	Yes. Schools will often issue a refund check for a late awarded scholarship, or if you student drops out of school or drops a class. You have a 60 day window from the date of the refund to recontribute those funds to your 529 account for the same beneficiary. The recontribution cannot exceed the amount of the refund.
Is a 529 Savings Plan like an UGMA/UTMA custodial account? Do I have to give up control of the assets?	No; your contributions to 529 plans are considered completed gifts to the beneficiary for tax purposes only– meaning the money is out of the estate of the contributor and in the estate of the beneficiary. But, you as the account owner retain full control of the account for as long as it is open. You decide if and when a distribution will be made and you can transfer assets from one beneficiary to another without penalty, as detailed earlier.

What is the last date I can contribute to be eligible for the state tax deduction for that year?	Most states have a deadline of the last business day of the year for the contribution to be counted for that year. But some have a April 15th deadline. And for gift tax purposes, the contribution needs to be contributed by the last business day of the year for 'gifts' to be considered made in that tax year. Some plans will accept a date stamp; other plans require that the account be open and the trade executed on or before the last business day of the year. Check with your state's 529 Plan.
What is the tax treatment if I take a non-qualified withdrawal? *(A non-qualifed withdrawal is a withdrawal where the funds are not towards a QHEE or QEE)*	Non-qualified withdrawals are subject to a federal 10% penalty and ordinary income tax on the earnings portion of that non-qualified withdrawal. **For example,** if your 529 account value is $100,000 with $80,000 of contributions and $20,000 of growth/earnings and you take a $10,000 non-qualifed withdrawal only $2,000 is treated as the growth portion. Therefore $2,000 is assessed a 10% tax penalty and treated as ordinary income and taxable to the recipient. Also, note that some states that provide a tax deduction or credit for contributions to the 529 impose a recapture of those benefits for non-qualified withdrawals.
Can I roll my 529 funds into a Roth IRA?	As part of the Secure 2.0 Act beginning in 2024 the owner is able to transfer funds from a 529 up to a lifetime maximum amount of $35,000 to a Roth IRA for the named beneficiary. However there are some restrictions: • Amounts held in a 529 can only be rolled to a Roth IRA in the name of the same beneficiary as the 529 plan. If an individual is considered the owner of a 529 held for the benefit of a child, the Roth IRA must also be for that child. • The maximum rollover amount in any year is limited to the IRA contribution limit for that year ($7,000 for 2024) reduced by any actual Traditional or Roth IRA contributions made that year. Also, there is a lifetime maximum rollover of $35,000. • The 529 plan must have been opened for at least 15 years as of the date of the rollover. Also, the rollover amount is limited to any contributions made to the plan (and attributed earnings) prior to 5 years before the rollover occurs. For example, a rollover done July 1, 2024 must come from a 529 plan opened prior to July 1, 2009 and can only be made from the balance in the account prior to July 1, 2019.

Investors should consider the investment objectives, risks, charges and expenses associated with a 529 Plan before investing. This and other information is available in a Plan's official statement. The official statement should be read carefully before investing.

Depending on your state of residence, there may be an in-state plan that provides tax and other benefits such as financial aid, scholarships and creditor protection that are not available through an out-of-state plan. Before investing in any state's 529 plan, you should consult your tax advisor.