



529 Plan Tax Benefits

A 529 plan is a tax-favorable investment vehicle in the U.S. which promotes saving for future education costs. 529 plan accounts have a tax savings characteristic in that they provide for tax-free growth if the funds are used for qualifying educational expenses. When initially added to the tax code, the 529 plan qualified withdrawals were limited to only post-secondary educational expenditures. However, the 2017 enactment of the Tax Cuts and Jobs Act, permitted K-12 public, private and religious school tuition as qualifying education expenses (up to a \$10,000 limit). The 2019 enactment of the SECURE Act further expanded the list of qualifying educational expenditures to include student loan payments (up to a \$10,000 lifetime limit) and costs associated with qualified apprenticeship programs.

The income tax benefits available at the time contributions are made to one these educational savings accounts are primarily limited to the state level, and can vary by each state. A majority of the states allow either a full or partial state income tax deduction, based on contributions made during the year, whereas a few states offer an income tax credit. Both will reduce your overall tax bill, but in very different ways.

Tax deductions are beneficial in that they reduce the amount of your income that is effectively subject to taxation. Deductions lower a taxpayer's state taxable income, the impact of which is measured by the percentage of the highest income tax bracket for the taxpayer claiming the deduction. For example, a MN taxpayer in the highest tax bracket (9.85%) with a maximum \$3,000 deduction would generate a \$296 reduction in MN taxes. Most states limit deductions to contributions to their state's 529 plan. However, currently seven states allow a deduction for contributions regardless of which state's 529 plan is used.

Tax credits are beneficial in that they reduce the amount of tax you owe, providing a dollar-for-dollar reduction of your state tax liability. An eligible Minnesota taxpayer making a \$1,000 contribution would generate a \$500 credit and reduction of their tax. For Minnesota, the maximum amount of the tax credit is phased out as income increases with varying thresholds for individual and married taxpayers. Furthermore, the credit is a nonrefundable credit and may only be used to offset the current year Minnesota tax liability. An individual with no state income tax liability will not benefit from the credit.

The annual contribution limit to 529 plans has not been specified by the Internal Revenue Service. Although most taxpayers will likely not have to worry about limits, there are some rules that taxpayers should be aware of if they are considering making a large contribution. If contributions to an individual's 529 plan will be more than \$15,000, the current annual gift tax exclusion, the excess amount will count against the contributor's lifetime estate and gift tax exemption. However, taxpayers may elect to treat contributions in excess of the annual gift tax exclusion as if it were spread ratably over a 5-year period. Based on the current \$15,000 annual gift tax exclusion, a taxpayer could contribute as much as \$75,000 to a 529 plan in a single year without utilizing any of their lifetime estate and gift tax exemption. This election

must be properly made on an annual gift tax return filed for the year the contribution is made and 20% of the contribution will be reported on each of the five annual gift tax returns filed.

There are currently fourteen states that make saving for college a little easier by offering grants to participants' 529 plans. Some states provide matching contributions and others provide an initial contribution grant for opening an account. The matching contributions are similar to those of an employer 401(k) match, whereby the state matches contributions, or a percentage thereof, up to a certain specified level. Some states provide for a matching contribution only once when the account is initially established, and others provide contributions for multiple years. Currently, the State of Minnesota does not provide any matching contributions to taxpayer 529 accounts.

Attached is a summary of the tax benefits currently available by state. Should you have any questions regarding 529 plans, or need assistance in establishing a new account, please reach out to your investment advisor.

Disclaimer:

Information and analysis provided in this white paper are for general and educational purposes only. Any opinions expressed in this summary are not intended to be accounting, legal, tax or investment advice.

Investment decisions should be made based on an investor's specific circumstances taking into account items such as, risk tolerance, time horizon and goals and objectives. All investments have some level of risk associated with them and past performance is no guarantee of future success.

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**2020 State Tax Benefits
IRC Section 529 Plan Contributions**

	Eligible 529 Plan Contributions	State Tax Deduction	State Tax Credit	Potential Tax Savings - Based on highest tax rate	(Matching) Dollars Available
Alabama	AL 529	\$5,000 per parent (\$10,000 Joint)	-	\$500	No
Alaska	N/A	-	-	-	No
Arizona	Any 529	\$2,000 Single / \$4,000 Joint	-	\$180	No
Arkansas	Any 529	\$5,000/(\$10,000 Joint) - Limits Vary	-	\$660	No
California	CA 529	-	-	-	Yes
Colorado	CO 529	Full amount of contribution	-	\$463 (based on \$10,000 contribution)	Yes
Connecticut	CT 529	\$5,000 per parent (\$10,000 Joint)	-	\$699	Yes
Delaware	N/A	-	-	-	No
District of Columbia	DC 529	\$4,000 Single / \$8,000 Joint	-	\$716	No
Florida	N/A	-	-	-	No
Georgia	GA 529	\$2,000 Single / \$4,000 Joint per Beneficiary	-	\$230	No
Hawaii	N/A	-	-	-	No
Idaho	ID 529	\$6,000 Single / \$12,000 Joint	-	\$831	No
Illinois	IL 529	\$10,000 Single / \$20,000 Joint	-	\$990	No
Indiana	IN 529	-	20% credit up to \$5,000 (\$1,000 max credit)	\$1,000	No
Iowa	IA 529	\$3,439 Single / \$6,898 Joint per Beneficiary	-	\$588	No
Kansas	Any 529	\$3,000 Single / \$6,000 Joint per Beneficiary	-	\$342	Yes
Kentucky	N/A	-	-	-	No
Louisiana	LA 529	\$2,400 Single / \$4,800 Joint per Beneficiary	-	\$288	Yes
Maine	ME 529	-	-	-	Yes
Maryland	MD 529	\$2,500 Single / \$5,000 Joint per Beneficiary	-	\$288	Yes
Massachusetts	MA 529	\$1,000 Single / \$2,000 Joint	-	\$100	Yes
Michigan	MI 529	\$5,000 Single / \$10,000 Joint	-	\$425	No
Minnesota	Any 529	\$1,500 Single / \$3,000 Joint	50% credit up to \$1,000 (\$500 max credit)	\$296 / \$500	No
Mississippi	MS 529	\$10,000 Single / \$20,000 Joint	-	\$1,000	No
Missouri	Any 529	\$8,000 Single / \$16,000 Joint	-	\$864	No
Montana	Any 529	\$3,000 Single / \$6,000 Joint	-	\$414	No
Nebraska	NE 529	\$10,000 per return / \$5,000 (MFS)	-	\$684	No
Nevada	NV 529	-	-	-	Yes
New Hampshire	N/A	-	-	-	No
New Jersey	N/A	-	-	-	No
New Mexico	NM 529	Full Amount of Contribution	-	\$490 (based on \$10,000 contribution)	No
New York	NY 529	\$5,000 Single / \$10,000 Joint	-	\$882	No
North Carolina	N/A	-	-	-	No
North Dakota	ND 529	\$5,000 Single / \$10,000 Joint	-	\$290	Yes
Ohio	OH 529	\$4,000 per beneficiary	-	\$192	No
Oklahoma	OK 529	\$10,000 Single / \$20,000 Joint	-	\$1,000	No
Oregon	OR 529	\$2,375 Single / \$4,750 Joint ends 12/31/2019	Credit only starting in 2020, \$150/\$300(MFJ)	\$300	Yes
Pennsylvania	Any 529	\$15,000 Single / \$30,000 Joint per Beneficiary	-	\$921	No
Rhode Island	RI 529	\$500 Single / \$1,000 Joint	-	\$60	Yes
South Carolina	SC 529	Full Amount of Contribution	-	\$700 (based on \$10,000 contribution)	No
South Dakota	N/A	-	-	-	No
Tennessee	TN 529	-	-	-	Yes
Texas	N/A	-	-	-	No
Utah	UT 529	-	5% on Contributions up to \$2,040 (\$4,080 MFJ)	\$202	No
Vermont	VT 529	-	10% on Contributions up to \$2,500 (\$5,000 MFJ)	\$500	No
Virginia	VA 529	\$4,000 per Account per Year, No limit if 70+	-	\$230	No
Washington	N/A	-	-	-	No
West Virginia	WV 529	Full Amount of Contribution	-	\$650 (based on \$10,000 contribution)	Yes
Wisconsin	WI 529	\$3,280 per Dependent Beneficiary	-	\$251	No
Wyoming	N/A	-	-	-	No