



## CATHOLIC EDUCATION PARTNERS

### Kentucky 529 Plans FAQs

#### What is a 529 plan?

Named for Section 529 of the U.S. tax code, a 529 plan is a tax-advantaged investment plan operated by a state to encourage saving for **education expenses**. All 529 accounts enjoy the same federal and Kentucky state tax treatment. As there is risk when investing in a 529 account, we are required to advise that readers talk to a financial advisor.

#### What are the qualifying education expenses?

Following the passage of 2017's Tax Cut and Jobs Act, funds in a 529 plan may be used for tuition, books, fees, computer technology, or room and board at a qualifying college *and for up to \$10,000 in tuition at a K-12 public, private, or religious school*.

#### What is the federal tax advantage for using a 529 plan?

The growth of your investment is not subject to federal taxation as long as funds are used for qualifying educational expenses. There is no federal deduction allowed for contributions.

#### What are the state tax advantages of investing in a 529 plan?

Beginning July 16, 2018, Kentucky state law treats funds in Kentucky Educational Savings Plan Trust (KESPT) accounts similar to federal law. This means **funds grow tax-free in a KESPT account if used for K-12 tuition or higher education expenses**.

#### Can I open a 529 account operated by a different state?

Yes, there is no requirement that you use KESPT. However, state tax treatment may be different for non-KESPT plans.

#### Who may donate to a 529 account?

Anyone may contribute to a 529 plan for any beneficiary.

#### Can the beneficiary on an account be changed?

**Yes, a beneficiary may be changed at any time, and changes in beneficiary among family members will not incur a tax liability.** However, if the new beneficiary is not a family member of the original beneficiary, there may be a tax due on the growth of the investment.

#### Is there an annual limit on how much one may donate to a 529 plan?

The federal gift tax applies to donations larger than \$15,000 per year. However, 529 accounts may be pre-funded with 5 years' worth of gifts (\$70,000 individually or \$140,000 for a married couple filing jointly) without incurring the tax, so long as no further gifts are made for 5 years.

#### Is there an annual limit on K-12 tuition expenses?

**Yes, the maximum amount that can be distributed tax-free per calendar year is \$10,000 per student**, regardless of the number of 529 accounts.

#### Can I use my existing 529 account for K-12 expenses?

Yes, as of July 16, 2018, neither federal nor Kentucky tax law restricts using current 529 funds for K-12 tuition.

#### Is a 529 guaranteed to grow?

Investing in a 529 account is an investment like any other and carries risk. Please consult a financial advisor to discuss your specific circumstances before investing.