

# CHRISTIAN FAMILY & CHILDREN'S CENTER



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## Pennsylvania 529 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**. As there is risk when investing in a 529 account, we are required to advise readers to 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 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 tax advantages in Pennsylvania of investing in a 529 plan?** In addition to tax-free growth on the investment, **taxpayers in Pennsylvania who contribute to any 529 plan may deduct up to \$15,000 (\$30,000 for joint filers) from their taxable income**. This is one of only 3 available deductions on Pennsylvania income tax. At PA's 3.07% tax rate, this could result in a reduction in taxes owed of up to \$921 on a \$30,000 contribution.

**Who may donate to a 529 account?** Anyone may contribute to a 529 plan for any beneficiary. **Any Pennsylvania taxpayer contributing to a 529 plan may take a deduction, regardless of who the beneficiary is.**

**Can funds in a 529 account be used for K-12 tuition in another state?** Yes, the funds can be used to pay **K-12** tuition expenses in any other state.

**Can the beneficiary on an account be changed?** Yes, a beneficiary may be changed at any time, and changing the beneficiary among siblings will not incur a tax liability. However, if the new beneficiary is not a sibling 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 person may donate to a 529 plan?** 529 contributions are counted as a "gift" for federal taxes, so more than \$15,000 to a single beneficiary could trigger a gift tax on further giving.

**Is there an annual limit on using a 529 account for 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.

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**Can an existing 529 account be used for K-12 expenses? Yes, there are no federal or Pennsylvania restrictions on using funds in a 529 account for K-12 tuition in 2018 and beyond.** However, since some states' plans do not recognize K-12 tuition expenses, be sure to check with your plan manager for any plan other than PA529

**Where can further information be found?** The Pennsylvania Treasury Department has issued new guidance that adopts the recent change in Federal law regarding the use of 529 plans for K-12 expenses and below is some of the new guidelines along with a link to the new PA 529 guidance.

- Account owners can use assets to pay for qualified K-12 tuition expenses up to \$10,000 per year, per student.
- Account owners can treat qualified K-12 withdrawals as qualified expenses with respect to the **federal and Pennsylvania state** tax benefits.
- Account owners can roll over 529 plans to Achieving a Better Life Experience (ABLE) savings plans (an IRC Section 529 A plan), up to the ABLE annual contribution limit as determined under IRC Section 2503(b). However, a taxpayer may not claim a deduction for the rollover amount on their PA-40 return.

For additional guidance on these new provisions, account owners should consult the Pennsylvania Department of Revenue at [www.revenue.pa.gov](http://www.revenue.pa.gov) or by calling 717-787-8201 or consult a qualified tax advisor about your personal situation.