

## Tax Update on Qualified Tuition Programs & §529 Plans

The Tax Cuts and Jobs Act (TCJA) has made changes affecting qualified tuition programs, also known as §529 plans. Parents or guardians with children attending elementary or secondary schools (K-12) may benefit from the recently passed tax legislation. These changes take effect for transactions occurring after December 31, 2017. The tax benefits of qualified tuition programs vary by state. The following information generally pertains to Missouri taxpayers. Illinois taxpayers may be allowed a credit for a portion of their qualified education expenses and generally lose the ability to use these payments as a deduction.

A qualified tuition program is a program established and maintained by a state or an agency of a state, that allows a contributor to prepay a beneficiary's qualified higher education expenses at an eligible educational institution or to contribute to an account for paying those expenses. Earnings on a qualified tuition program are tax-free to the extent distributions are used to pay qualified higher education expenses of the beneficiary, the child. Contributions to a qualified tuition program are not deductible for Federal income tax purposes but you may qualify for a state deduction, depending on your state of residence.

The TCJA added expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school (K-12) to the definition of qualified expenses. As a result, distributions from qualified tuition programs can now be received tax-free by beneficiaries who pay certain K-12 expenses. The total distributions from all qualified tuition programs per single beneficiary during any tax year is limited to \$10,000 for K-12 tuition. The State of Missouri allows a subtraction from income (deduction) for annual contributions made to the Missouri 529 Savings Plan (MO\$T), the qualified tuition program administered by Missouri or any other qualified tuition program.

The maximum annual exempt contribution (deduction) is \$8,000 for single individuals or \$16,000 for married couples filing a combined return. The rules may vary by state. In addition, your contribution to a qualified tuition program may have gift and estate tax implications. The gift tax regulations provide an annual exclusion (\$15,000 for 2018) allowing taxpayers relief from reporting gifts of certain amounts. There are also certain gift tax exceptions that allow for making a larger lump sum gift in lieu of making smaller annual gifts. We recommend a full review of the gift tax ramifications and/or the rules and regulations of your resident state prior to making any contributions to a qualified tuition program.

In concluding, the new qualified tuition program rules may present planning opportunities to taxpayers paying elementary or secondary school (K-12) tuition. It is important to note that this is a potential deduction for state income tax purposes, not Federal income tax purposes. If you would like additional information regarding the issues presented in this bulletin or want to learn more please contact Schmersahl, Treloar & Co at 314-966-2727.

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