



Concordia Lutheran High School

Information on the 529 Program Changes for CLHS families

If you haven't heard, Congress recently made some big changes to various tax laws, called the Tax Cuts and Jobs Act. I will highlight most of these changes in an upcoming post, but today I was tasked with focusing on the new opportunities for our area Lutheran schools from the changes to 529 plans.

As *The Wall Street Journal* noted recently, "529 College-Savings Plans Are Even Hotter After Tax Overhaul", But what are 529 Plans? Named after a section of the tax code, 529s allow individuals to contribute after-tax dollars to a savings fund that is invested and grows tax-free. Withdraws are also tax-free if used to pay eligible college education expenses, including tuition, books, room, board, fees, books, etc.

However, thanks to the new tax law changes, as of January 1 withdraws up to \$10,000 per year are now also eligible for K-12 educational expenses at private and religious schools, including our area Lutheran schools and Concordia Lutheran High School.

In addition to providing more options when it comes to saving for K-12 tuition, other key points making 529s worth a closer look include the following:

- Gifts to approved plans in Indiana are eligible for a 20% Indiana state tax credit, up to \$5,000 that could result in a state tax credit up to \$1,000. (State tax credits sound familiar? See here how this tax credit is similar and different than gifts to SGO Scholarships.)
- Contributions to 529s qualify for the gift-tax annual exclusion, currently at \$15,000 per recipient (\$30,000 for married contributors). Contributors may be able to even make five years' worth of gifts in one lump sum (\$75,000 single, \$150,000 for those filing jointly).
- Contributors can be anyone... parents, grandparents, uncles, neighbors, former babysitters, anyone.
- This year total contributions cannot exceed \$298,770 for all accounts for the same beneficiary in Indiana sponsored plans.
- Some families have utilized a plan similar to 529s, called Coverdell Education Savings Accounts. However, 529s may be more attractive because they do not have the income or contribution limits of Coverdells, nor do they have the contribution deadlines or account time limits of Coverdells. The new act can allow rollovers to 529s from Coverdells without tax consequences.

So, how can K-12 schools promote and benefit from the enhanced 529 plans?

- Promote saving, as early as possible: wanting to send your newborn to a Lutheran school but worried about elementary school tuition? Or, do you have your K-8 costs managed, but wonder how you can afford sending Johnny to a Christ-centered high school? Start adding "Gifts to the 529" to everyone's Christmas lists as soon as possible. The sooner you start saving, the greater the benefit from tax-free compounding interest.



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- According to Indiana's plan [FAQ](#), while you cannot create a 529 account for an unborn child, you can create an account, name yourself as beneficiary, but later change the beneficiary to a future child.
- In Indiana, there is not a waiting period between donations and withdraws as long as the 529 account stays open for at least a year from the initial deposit date.
- How many other ways are there for grandparents to directly impact the education of Little Sally than helping fund their 529 plan, grow tax-free, and receive a 20% state tax credit in return?!
- Families pay for tuition, anyway... why not plan accordingly and receive a state tax benefit?
- If done right, perhaps schools can even reduce their reliance on School Choice Scholarships if more eligible students have 529 plans.

As with anything new, please keep in mind the following:

- The dust is still settling on all of this; watch the news in the coming months for any clarifications or updates to the Tax Cuts and Jobs Act.
- Make sure to continue to save for college... make K-12 education an addition to your plans.
- Indiana requires that you pick their approved plan in order to qualify for the deduction, as can be found here: CollegeChoice 529 - <https://www.collegechoicedirect.com/>.
- You can only donate cash to Indiana's plan; no stocks, bonds, credit cards, etc.
- Will Indiana's approved plans have the best performance and fee structure? Maybe yes, maybe no. You should investigate all of the options, and funds are not guaranteed; values can go up and down with the financial markets.
- Verify how the potential tax credit will mesh with your other tax credit donations, such as the SGO tax credit.
- And of course, **we strongly recommend** discussing any and all options with a certified tax and financial professional to see if the 20% tax credit or annual/accelerated gift exclusion will work for you.

This sounds great what now?

- Contact your tax and financial professionals to find out how you might leverage these programs.
- Keep an eye on your email for more information about this plan and how it may interface with payments plans at Concordia.
- After April 1, 2018 if you have questions about payment plans, contact the business office at the school to explore what options might work for you.