https://www.cnbc.com/2017/12/29/tax-bill-529-plan-provision-helps-families-save-on-school-costs-taxes.html

This tax bill provision helps families save on school costs and taxes

- Starting in 2018, you can use up to $10,000 in 529 plan proceeds for elementary and high school costs.
- 529 plan contributions qualify for the $15,000 annual gift tax exclusion.
- More than 30 states allow income tax deductions for 529 plan contributions.

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As of Monday, parents will be able to ramp up on tax savings to help cover the cost of private school.

The Tax Cuts and Jobs Act has expanded the use of 529 plans – accounts that allow savers to accumulate money and pay for college on a tax-free basis – to include elementary and secondary school expenses at public, private or religious institutions.

That means individuals can take up to $10,000 in distributions annually from their 529 plans to pay for private school tuition and books through 12th grade – in addition to using their account proceeds for college costs.

"It's a great way to start saving for school, especially with the new tax bill going into law and hopefully offering larger refunds," said Jeff Fosselman, a certified public accountant and senior wealth advisor with Relative Value Partners in Northbrook, Illinois.

Individuals can also save on state and gift taxes when making contributions into the 529 plan.

Here's how to get the most out of this tax-advantaged savings account.

State tax savings

More than 30 states offer income tax deductions for 529 plan contributions.

Be aware that limitations may apply to your particular state: Most jurisdictions require that you pick your home state's plan in order to qualify for the deduction, said Fosselman.

Also bear in mind that your state's plan may not be the best one for you in terms of fees and performance.

For instance, in 2017, Morningstar gave its highest ratings to the Bright Start College Savings plan in Illinois, Invest529 in Virginia, the Vanguard 529 College Savings Plan in Nevada and the Utah Educational Savings Plan. Morningstar's ratings include price and performance, along with other considerations.

To get the most tax savings out of your 529 plan, it's best to fund the account and let it accumulate free of taxes.

"If you use it as a slush fund – you put in $10,000 and take out $10,000 – you get the state income tax deduction, but no tax-free growth," said Jeffrey Levine, a CPA and director of financial planning at BluePrint Wealth Alliance in Garden City, New York.

Superfund a 529

Anyone can make a contribution to your child's 529 plan, but those who are feeling especially generous can front-load the account with a large contribution.

Contributions to these savings plans qualify for the gift-tax annual exclusion, which is $15,000 per recipient in 2018 ($30,000 for benefactors who are married).

Givers can maximize their tax savings by giving up to five years' of gifts in one year – or $75,000 per recipient – to a 529, and do so free of gift taxes.

Well-to-do relatives can also pay for beneficiaries' tuition or medical expenses free of taxes – even if those costs exceed the annual gift tax exclusion – provided the payments go directly to the provider of these services.

"If you're making the payment directly to the college, it's unlimited," said Fosselman of Relative Value Partners.

529 to ABLE

Parents of special needs children have only recently been able to access a tax-advantaged savings account that will allow them to use their funds for a range of expenses, including housing and long-term health care.

These are known as ABLE accounts, named after the federal Achieving a Better Life Experience Act, which passed in 2014.

Thanks to the tax overhaul, families can roll over money that's in a 529 plan into an ABLE account without any penalties.

Be aware that this provision only applies to distributions made from 2018 through the end of 2025.