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Massachusetts Lawmakers Provide Tax Deduction for Contributors to 529 Plans

BY KRISTIN WILDMAN SHIRAHAMA • AUGUST 12, 2016

On August 10, Governor Baker signed into law “[An Act Relative to Job Creation and Workforce Development](#)” (H. 4569). This economic development legislation includes an income tax deduction for those who are saving money for college. Massachusetts residents have long enjoyed the tax-deferred growth offered by 529 college savings plans and we now join the majority of states in offering an income tax deduction in years when a contribution to a Massachusetts 529 plan is made. Beginning on January 1, 2017, taxpayers who contribute to a Massachusetts Educational Financing Authority (MEFA) U. Fund 529 college savings plan can deduct an equal amount capped at \$1,000 for single tax payers, heads of household and married individuals filing separately and \$2,000 for married couples filing a joint return.

Taxpayers who are currently paying for higher education may want to first fund a 529 plan in order to receive the income tax deduction because withdrawals from the 529 plan can be taken at any time as long as they are used for qualified higher education expenses (tuition, room and board, books, and computer equipment).

A beneficiary of a 529 plan should be aware, however, that any non-qualified distributions from his or her plan, unless due to the beneficiary's death, disability or receipt of a scholarship, will result in “recapture of the deduction,” in addition to a 10% federal penalty and ordinary income taxes on the earnings, which results when the plan is not used for qualified higher education costs.