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Tax Cuts and Jobs Act Effect on ABLE Accounts and 529 Funds

BY BOWDITCH & DEWEY • FEBRUARY 16, 2018

Based on changes implemented by the Tax Cuts and Jobs Act, this is an update on a previous post written in May 2017, "Families Can Use a Tax-Advantaged ABLE Account to Save for Disability Expenses."

There are several changes that impact Achieving a Better Life Experience (ABLE) accounts with the passage of the Tax Cuts and Jobs Act of 2017, which went into effect on January 1, 2018. These changes allow individuals and families to better save for beneficiaries with disabilities.

Maximum Annual Contribution Increased to \$15,000

The annual contribution limit for an ABLE account has increased to \$15,000 per year (previously \$14,000). This limit accounts for aggregate contributions to an ABLE account from all sources – such as multiple family members – during the tax year.

Rollover from 529 account to ABLE account

The new tax law also creates an opportunity to rollover a maximum of \$15,000 from a 529 educational savings account to an ABLE account. Funds from a 529 account can be distributed without penalty and transferred to an ABLE account for the same beneficiary or for a "family member" of the beneficiary as defined by the law. This planning opportunity is especially beneficial for those who have saved for a child's college education in a 529 plan and encounter a situation later on where the child develops a disability and an ABLE account becomes more appropriate.

Saver's Credit

ABLE beneficiaries can access a tax credit often called the "Saver's Credit" (formally known as the Retirement Savings Contributions Credit) when they contribute funds to their own ABLE account and meet certain requirements. The tax credit incentivizes those with modest incomes (under \$31,500 adjusted gross income for single tax filers and under \$63,000 adjusted gross income for joint filers in 2018) to use ABLE accounts to save for disability related expenses. The

maximum credit is \$2,000 for single filers and \$4,000 for joint filers.

Ability to Save More for Beneficiaries with Earned Income

Beneficiaries of ABLE accounts can make additional contributions as a result of employment above the \$15,000 annual contribution limit, up to \$12,060 in 2018. It is important to note that earned income by a disabled individual may affect federally means-tested benefits.

Except for the increased contribution limit, the aforementioned provisions expire on January 1, 2026. However, many experts in the special planning community believe the provisions will be extended