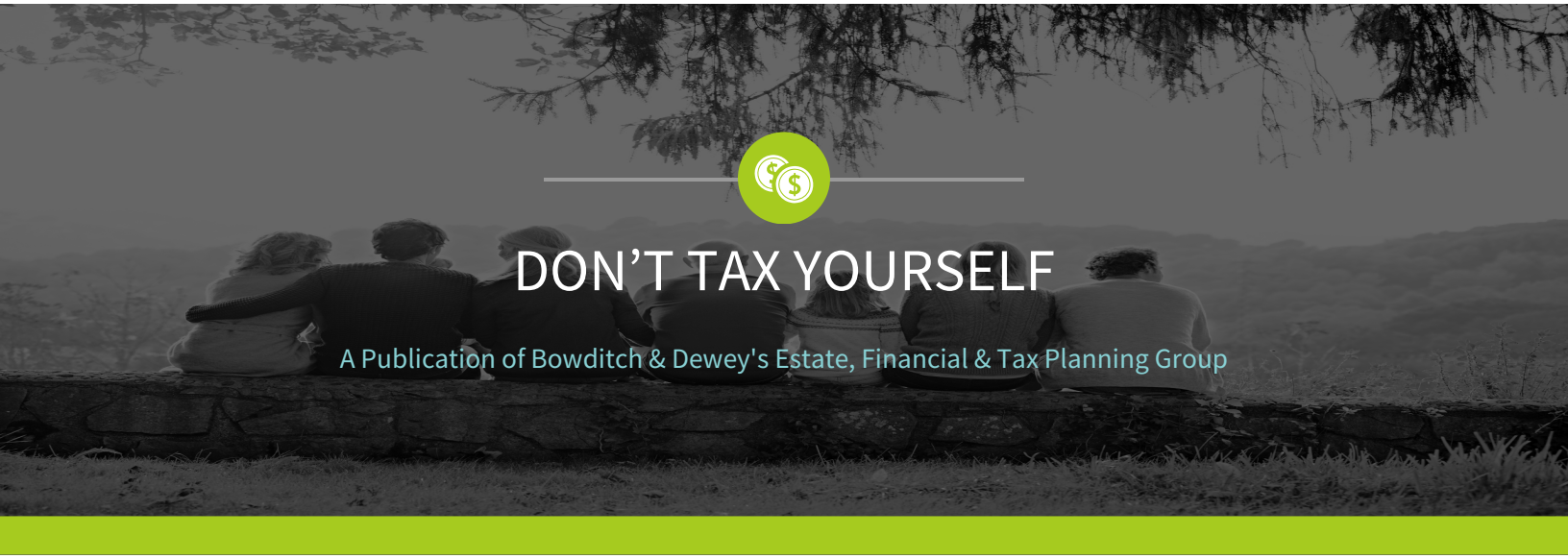


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Increased Flexibility for 529 College Savings Accounts

BY BOWDITCH & DEWEY • JUNE 21, 2024

Beginning in 2024, due to new rules within the SECURE Act 2.0, federal law now allows for up to $35,000 in a 529 account to be rolled over to a Roth individual retirement account ("IRA") for the beneficiary of the 529 account.

Many families are familiar with 529 accounts as a vehicle for saving for education expenses. Money that is deposited into a 529 account grows tax free and can be withdrawn tax free to pay for education related expenses. Such accounts are commonly used for college and graduate school expenses such as tuition and housing. Some states allow for up to $10,000 per year to be used for kindergarten through high school tuition, however not all states conform to this provision.

If a child is fortunate enough to have a 529 established for their benefit, it is common that they would use the entire account in paying for the ever-growing costs of higher education. However, there are some families who do not use the entire 529 account for education expenses for various reasons, such as a child earning scholarships or deciding not to attend college. For families who are interested in transferring the unused 529 funds to the beneficiary child, the Roth rollover is an attractive option. There are certain conditions that must be met to allow for such a rollover.

To qualify for a rollover:

- The Roth IRA must be in the name of the beneficiary of the 529 plan.
- The 529 account must have been open for at least 15 years.
- No contributions or earnings from the past 5 years may be transferred.
- There is a limit as to how much can be contributed to the Roth each year in addition to the lifetime limit of $35,000. In 2024, the maximum annual contribution to a Roth for persons under 50 years old is $7,000. This means that the total contribution by the beneficiary can be no greater than $7,000 for this year, whether it is money that is rolled over from their 529 or money which they contributed to another Roth IRA.

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Other rules may apply that affect the ability to contribute to a Roth. The government has not yet issued formal guidance related to the Roth rollover option, so it is important to consult with your tax advisor before exercising this option.

The new option for a Roth rollover is certainly a welcome alternative to the taxes and penalties owed on non-qualified withdrawals from an unused 529.

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