

Do 529 Plans REALLY Help for Day School Tuition? YES!!!

Do you pay tuition?

***PLEASE READ THIS CAREFULLY TO BEGIN SAVING MONEY
WHEN PAYING TUITION FROM 529 ACCOUNTS***

In late December, the federal government passed a comprehensive tax reform bill. Of note, the new law expanded the 529 college savings program to include investments for K-12 private school tuition. Following strategic advocacy efforts led by Agudath Israel, the state of Maryland now authorizes an additional incentive of a state tax deduction on funds invested in 529 accounts and used for K-12 private school tuition.

1. Q: Who can benefit from a Maryland 529 account?

A: Any Maryland resident, regardless of their tax bracket or income level.

2. Q: Do I need to put away large sums of money for an extended period of time to benefit from a 529 account?

A: Not at all! The funds that are deposited in the 529 account may be withdrawn for tuition use as soon as the transaction clears (a maximum of 10 calendar days).

3. Q: How much actual savings does a 529 account provide me?

A: Couples that file a joint tax return may take a tax deduction of up to \$5,000 per child on their state tax return when contributing that amount or more to their child's 529 account. On average, a \$5,000 tax deduction results in a net tax savings of approximately \$400 off of their state/local taxes ($\$5,000 \times 8\%$ avg. state/local tax rate = \$400). If they have multiple children and contribute the same \$5,000, the tax savings grows by an additional \$400 for each child. Accordingly, a single parent, or couples that file taxes separately, may each take a tax deduction of up to \$2,500 per child (with an approximate net tax savings of \$200).

4. Q: Should couples who file their taxes together also open up their 529 accounts together?

A: It depends. If filing taxes jointly, they can open one 529 account for each child and receive a maximum \$5,000 tax deduction per child for their contributions. However, if they are participating in the Maryland Match program (see question #10), they will maximize their benefit as separate account holders for each child.

5. Q: Other than my wife and I contributing \$5,000 to our son's 529, can others, like grandparents, contribute towards his tuition?

A: Yes, 529 contributions to a specific child can be made by multiple contributors (not restricted to family members). However, only \$10,000 per child may be withdrawn for day school tuition per year.

6. Q: I have grandchildren in other states whose day school tuition I help pay. Can I benefit from a Maryland 529?

A: Yes! They can open 529 accounts for each grandchild (as long as they are US citizens or resident aliens) and the tuition payments sent to their out-of-state day schools are also considered a qualified educational expenses (even if those states do not have a comparable 529 program for K-12).

7. Q: Can I open a 529 account through my business?

A: Yes! 529 account holders can even be corporations, trusts, estates or associations.

8. Q: Is the interest that grows in a 529 account taxable?

A: No! Unlike other investment accounts, the interest in 529 accounts grows tax free on both federal and state levels.

9. Q: How do these 529 accounts differ from the college savings plans that have been available until now?

A: The only difference between the K—12 day school 529 accounts and the college savings 529 (which also include many accredited post-high school yeshivos and seminaries) is the \$10,000 cap on annual per-child tuition withdrawal. College savings programs have no such cap.

10. Q: If my household income is low and I owe little to no state taxes, is there any benefit of opening up a 529 account?

A: Yes, indeed! For households that earn \$175,000 or lower, there is a program called the MD Match, which offers \$250-\$500 to each account holder who makes a minimum contribution to a 529 account. Note 1: Applications for the Maryland Match are due on June 1st. Note 2: 529 accounts which benefit from the Maryland Match are not able to take the state tax deduction for contributions into those account.

11. Q: Where do I go to open a Maryland 529 account?

A: Simply go to www.Maryland529.com and select “Maryland College Investment Plan” to enroll. You can start saving money just for paying your day school tuition!

Note: This memo does not constitute legal or tax advice. Each family should still consult with a tax professional to determine if this investment is right for them.