

VSAC Web site guidance, January 2018

Thomas A. Little, April 11, 2018

The federal tax act of 2017, signed into law in December 2017, includes provisions related to 529 plan accounts, beginning with the 2018 tax year:

- *529 withdrawals may be used to pay for qualified K-12 expenses for elementary or secondary public, private or religious schools effective January 1, 2018. These K-12 withdrawals are limited to \$10,000 per student per year and apply to tuition expenses only. Withdrawals up to \$10,000 per year per beneficiary for K-12 tuition expenses are not subject to federal tax, but the earnings on those withdrawals over \$10,000 would be subject to federal tax.*
- *The Vermont 529 plan statute is written differently, however, and may impose negative Vermont income tax consequences on withdrawals for K-12 tuition. Therefore, for account owners who took the Vermont income tax credit on contributions to their 529 plan, amounts withdrawn for K-12 tuition expenses may be subject to a 10% recapture penalty on those withdrawals, and Vermont may impose tax on the gain realized with respect to the withdrawals.*

VSAC, as administrator of the Vermont 529 plan, will provide information as details about the Vermont income tax effects are clarified during the 2018 legislative session. We encourage you to consult a qualified tax advisor or the Vermont Department of Taxes at tax.vermont.gov concerning federal and state tax implications for tax years 2018 and beyond, and to save documentation for how all VT 529 fund withdrawals are used.