

529 PLAN TAX CREDIT; FEDERAL ALLOWED USES

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Vermont Law

Vermont allows a personal income tax credit for contributions to a Vermont 529 plan (Vermont higher education investment plan – VHEIP). [32 V.S.A. § 5825a](#).

Credit structure:

- Nonrefundable credit against income tax owed
- 10% of the first \$2500 of contributions made in taxable year per beneficiary to a Vermont HEIP
- Recapture:
 - 10% of distribution from a VHEIP account when the distribution is not used exclusively for the *costs of attendance* at an approved postsecondary education institution as defined under [16 V.S.A. § 2822\(6\)](#).
 - The recapture provision was changed last year in [Act 51](#), Secs. 16-20, to decouple from federally allowed uses. These uses were changed in the 2017 federal tax reform bill, the Tax Cuts and Jobs Act. TCJA allowed distributions from 529 plans to be used to pay up to a total of \$10,000 of tuition per beneficiary each year at an elementary or secondary (k-12) public, private or religious school of the beneficiary's choosing.

Federal Law

Last December, the SECURE Act (Setting Every Community Up for Retirement Enhancement Act, P.L. [116-94](#)) was passed making amendments to IRC § 529 that applied retroactively to the 2019 tax year. These amendments expanded the allowable uses of Section 529 plan distributions to include registered apprenticeship program expenses and student loan repayments.

- Registered apprenticeship programs
 - Allowed expenses are for fees, books, supplies, and equipment required for participation in an apprenticeship program registered and certified with the Secretary of Labor
- Student loan repayment
 - \$10,000 cap on distributions from 529 accounts for student loan repayments
 - Student loan interest deduction under I.R.C. § 221 is reduced by the 529 distributions for repayments (but not below zero).

Vermont's tax credit recapture section could be amended to include one or more of the federally allowable uses for 529 plan distributions.