Federal 529 savings investment plans

Benefits

- Contributions are not considered taxable gifts to the beneficiary unless the amount exceeds the gift tax exclusion amount (for 2020: $15,000).
- Earnings produced by 529 savings plan investments are not taxable income for either the contributor or the beneficiary.
- Withdrawals are not considered taxable gifts.
- Withdrawals from 529 accounts are not considered taxable income for the beneficiary when used for qualified expenses, notably:
    - K-12 tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school.
    - Qualified higher education expenses.
    - Register apprenticeship expenses (expenses for fees, books, supplies, and equipment required for the participation of a designated beneficiary in an apprenticeship program registered and certified with the U.S. Secretary of Labor).
    - Student loan repayments paid as principal or interest on any qualified education loan of the designated beneficiary, capped at $10,000 per beneficiary.
        - Any loan repayment amount from a 529 plan that is excluded from gross income proportionally reduces the amount of any student loan interest deduction that the beneficiary could have otherwise taken.

Checks and balances

- Contributions are <u>not</u> deductible by the contributor.
- Unqualified distributions are subject to federal income tax and a 10% penalty.

Vermont 529 tax credit

- Nonrefundable credit against income tax owed allowed for contributors to 529 plans.
- Credit is 10% of the first $2,500 of contributions made in taxable year per beneficiary to a Vermont Higher Education Investment Plan (VHEIP). Joint filers may each qualify separately for a credit, so long as they made contributions in their own name.
- 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.
        - This means that distributions for any other purpose will be subject to a 10% penalty. K-12 expenses, registered apprenticeship program expenses, and student loan repayments are not considered qualified higher education expenses under Vermont law. Using 529 plan funds for any of these purposes would trigger the 10% penalty.

S.331 income tax deduction for student loan repayments made by an employer

S.331 as introduced proposes to allow qualified taxpayers to deduct the first $5,000 of payments made by their employer on the taxpayer's qualified student loan. This excludes repayments that would otherwise be included in the individual's taxable income. Accordingly, this reduces the amount of income subject to tax. This proposal would take effect on Jan. 1, 2021.

What qualifies a taxpayer for this deduction?

- Taxpayer must be making payments on a qualified student loan during the taxable year in which the deduction will be taken.
- If a single filer, taxpayer's adjusted gross income cannot exceed $200,000
- If joint filers, taxpayers' adjusted gross income cannot exceed $250,000

What qualifies a student loan?

- The loan must be incurred to attend and receive a baccalaureate or graduate-level degree from an institution of higher education.

What qualifies an institution of higher education?

- The institution must provide postsecondary education that generally limits enrollment to graduates of secondary schools.
- The institution must award degrees at either the baccalaureate or graduate level.
- The institution may be public, private nonprofit, or for-profit.

What qualifies an employer?

- An employer must make payments on an employee's qualified student loan.
- An employer is anyone who is required to provide unemployment insurance coverage under Vermont law.