WELLS FARGO Wealth & Investment Management

529 savings plans

An education-savings vehicle with multiple benefits

Offered through Wells Fargo Advisors

The first-year college tuition bill in 2034 is projected to be $32,361[1] for an in-state average public education institution and $78,707 for an average private institution.

Building the assets you'll need to fund a child's or grandchild's education is a challenge, but you may be able to meet it by contributing to a 529 plan.

529 plans were made possible by federal legislation but are implemented at the state or institution level. Nearly all states have approved and adopted these qualified tuition programs (QTPs). Most states let nonresidents participate in their plans, although the state tax benefits may be greater for residents than for nonresidents.

The beneficiary can use 529 plan account balances at any eligible educational institution in the United States or certain schools abroad for qualified expenses. Qualified elementary and secondary education expenses include up to $10,000 per year per beneficiary for tuition only (not all states have adopted this change). Qualified higher education expenses include tuition, fees, books, computer equipment and technology, and supplies required for enrollment or attendance at the eligible institution. Room and board are qualified expenses for students who are at least half time. Rules apply for on and off campus housing. Qualified expenses also include fees, books, supplies, and equipment required for registered apprenticeship programs and qualified student loan repayments for a designated beneficiary or siblings (up to $10,000 lifetime each, not annual). A provision passed in Secure Act 2.0 allows direct trustee-to-trustee rollover contributions from a 529 plan to a Roth IRA for the 529 plan beneficiary, subject to certain limits and requirements. (see details in frequently asked question on page 6). State laws may vary. The account owner retains control of the assets and can change beneficiaries within the designated beneficiary's family at any time without penalty. Other key advantages of these plans are:

- **Tax-free qualified distributions.** The beneficiary may be able to take qualified distributions federal-income-tax-free. State tax laws may differ from federal laws. Check with your tax advisor to determine the tax treatment of distributions in your state.
- **No income limitations for participation.** There are no income restrictions for contributing to a 529 plan, which is a benefit for higher-income families.

[1] Total yearly costs for in-state tuition, fees, books, room and board (transportation and miscellaneous expenses not included). Base is 2023 – 2024 school year. Costs for all future years projected by Wells Fargo Advisors in November 2023 assuming a 2.5% national average increase per year for public and a 3.2% national average increase per year for private (based on a 10-year historical average). Source: Trends in College Pricing and Student Aid. collegeboard.org

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- **Substantial contribution amounts.** Contribution limits are significantly higher than those allowed for an Education Savings Account (ESA). Maximum account balance limits vary from state to state.
- **Minimal burden of investment decisions.** The plan's chosen investment manager will be responsible for the day-to-day portfolio management of all contributions. Initially, you select from several asset-allocation-model alternatives, which generally you may change only twice every calendar year and/or with a beneficiary change.
- **Significant estate-planning benefits.** Due to a special provision unique to 529 plans, a single person can contribute up to $90,000 in one year per beneficiary; a married couple can contribute up to $180,000 in one year per beneficiary with no gift-tax consequences.[2] Such a contribution will be considered a five-year accelerated annual-exclusion gift ($18,000 for 2024), so no additional gifts can be made for that beneficiary for this year and the next four years without creating gift-tax implications unless the annual gift exclusion increases. Not only are you able to jump start your education savings, but this accelerated gifting technique also allows you to reduce your estate by the gift amount and any subsequent appreciation. (A portion of the contribution amount may be included in the donor's taxable-estate calculation if the donor should die within the five-year period.)

An investment in a 529 plan will fluctuate such that the shares when redeemed may be worth more or less than the original investment. There are no guarantees that an investment in a 529 plan will cover higher-education expenses. Investors should consult the plan's offering document for the fees and expenses associated with that plan. You should consider a 529 plan's investment objectives, risks, charges, and expenses carefully before investing. The plan's official statement, which contains this and other important information, should be read carefully before investing.

Frequently asked questions

Can securities be contributed to a 529 plan?

No. Contributions to 529 plans must be made in cash.

How will my contributions be invested?

Typically your contribution is invested in a predetermined portfolio of stocks, bonds, and other securities. These portfolios are managed by the plan's chosen investment firm. In general, owners designate a certain allocation model at the time of the original contribution and can change this investment model twice every calendar year and/or when they change the beneficiary.

[2] Assumes no other gifts have been made for the year and a gift tax form 709 has been completed.

Can I change the beneficiary after I've made a contribution?

Generally, you may change your noncustodial 529 savings plan account beneficiary to another qualified family member of the designated beneficiary without triggering income tax consequences. This change is not allowed for 529 plans created with funds from a UGMA/UTMA account. A qualified family member generally includes siblings, descendants, ancestors, aunts, uncles, and first cousins (defined in IRS publication 970). If you change the beneficiary to a descendant of the designated beneficiary, you will trigger a gift from the current beneficiary to the new beneficiary. If the value is more than the annual exclusion (or five-year accelerated annual exclusion), you must report it as a "taxable gift."

What happens if the account balance is not used for qualified education expenses?

Every withdrawal from a 529 plan is separated into two components: an "earnings" portion and a "return of your investment" portion.

The return of your investment in the 529 plan is never subject to federal income tax. On the other hand, if a withdrawal is not used for qualified education expenses, the earnings portion of the withdrawal is subject to income tax and potentially a 10% additional tax.

Some exceptions to the additional tax may be available. For example, if the beneficiary dies, becomes disabled or receives a tax-free scholarship, you may take nonqualified distributions from the 529 balance within that same tax year and not pay the additional 10% tax. See IRS publication 970 at **irs.gov** for more exceptions.

How will 529 plan investment balances affect eligibility for financial aid?

Assets in a 529 account are included in the federal financial aid calculation as follows:

- If a parent owns a 529 account for the child applying for financial aid, up to 5.64% of the value is included in Student Aid Index (SAI), formerly called the Expected Family Contribution (EFC), as a parental asset. Any 529 accounts owned by a dependent student or by a custodian for the student are reported on the Free Application for Federal Student Aid (FAFSA) as a parental asset. Any qualified withdrawals from these accounts are not included as income to the student.
- If a 529 account is owned by a grandparent (or someone other than a parent or the student), the account's value is not reportable as an asset on the FAFSA financial aid application. In addition, any distributions from these third-party accounts, cash support or funds paid on the student's behalf will no longer be considered untaxed income to the student for FAFSA purposes either. These changes are the result of additional rules of the Consolidated Appropriations Act (CAA) of 2021 going into effect for the 2024-2025 school year.

The above information pertains to the federal FAFSA calculation. Some schools may use an institutional formula, which may assess assets differently and produce a different aid determination. Contact your school's financial aid office for details.

You can count on us

529 plans can help parents, grandparents, aunts and uncles, and others provide significant benefits to their beneficiaries to help secure the type of education they deserve.

There are many 529 plan choices, and your financial professional can help you choose one that fits your needs.

Whether college is years away or right around the corner, put time on your side. Discuss education-funding alternatives with your financial professional today.

Can I transfer existing Uniform Gift to Minors Act/Uniform Transfer to Minors Act (UGMA/UTMA) balances into a 529 plan?

Yes, but 529 plan contributions must be made in cash, so if you choose to use UGMA/UTMA funds, your UGMA/UTMA assets must be liquidated (possibly triggering capital gains) before making your 529 contribution. You will need to transfer the funds into a custodial 529 plan account. Once there they will have the opportunity to grow tax-deferred, and qualified distributions may be federal income tax free, the same as a noncustodial 529 plan. Nonqualified withdrawals from either a custodial or noncustodial 529 plan account may trigger ordinary income taxes and a 10% additional tax.

There are two important differences to be aware of when funding a 529 plan with UGMA/UTMA funds. First, you should be aware that you are not allowed to change the beneficiary on custodial 529 plan accounts. Second, the UGMA/UTMA assets you transfer into the account will continue to be governed by the control rules involving UGMA/UTMA assets. That is, the beneficiary may gain control of those assets when attaining the age upon which custodianship ends.

You should also be aware that assets in a UGMA/UTMA account can be used for a variety of purposes without penalty. They are not restricted to educational expenses as with a custodial 529 plan. A better strategy may be to maintain the UGMA/UTMA assets for expenses not considered qualified by the 529 plan and direct new education savings into a 529 plan for qualified expenses.

Can I make a gift to a custodial account and a 529 plan in the same year?

Yes, within certain limitations. A gift to a custodial account is limited to the annual gift-exclusion amount ($18,000 for individuals, $36,000 for married couples) without affecting your lifetime gift-tax-exclusion amount. However, a gift to a 529 plan that is in excess of the annual gift-exclusion amount may be considered a five-year accelerated annual-exclusion gift if properly elected as such on a gift tax return.

For example, if you made a $50,000 contribution in one year to a 529 savings plan and elected the five-year accelerated annual exclusion gift on the gift tax return, your contribution would be treated as a $10,000 gift in the current year and each of the next four years. In that same year, you may gift an additional $8,000 to the same beneficiary in a custodial account (reaching your one-year total of $18,000, the annual gift-exclusion limit for 2024). If each spouse of a married couple gifted $50,000, the couple would be able to double these gifts.[3]

How can I maximize the 529 plan's estate-planning benefits?

Affluent families may want to contribute as much as possible into a 529 plan, both to fund college expenses for beneficiaries and to move assets out of a taxable estate. These families should consider making the maximum annual exclusion gift contribution ($90,000 for an individual or $180,000 for a married couple using the five-year lump-sum election) in a single year.

[3] Before implementing any gifting strategy, you should seek the advice of your tax and legal advisors; gift tax return(s) may be required.

Think twice if this is your goal and you are close to the end of the year. By maximizing that contribution this year, you use your annual-exclusion gift amount for that beneficiary for the next four years. That means four more years must pass before you can again contribute to that 529 plan account for that beneficiary without gift-tax consequences. If, instead, you make one year's annual exclusion gift for a beneficiary before year end of 2024, ($18,000 for an individual or $36,000 for a married couple) and then maximize your 529 plan contribution in the new year, you can contribute up to $108,000 (individuals) or $216,000 (married couples) within a matter of months rather than over six years, as illustrated below:[4]

Maximizing the estate-planning benefits of a 529 plan

For a married couple

2024		2025		
$36,000	+	**$180,000**	=	**$216,000**
Annual exclusion gift for 2024		Annual exclusion gift for 2025 – 2029 ($36,000 per year for five years)		Total contribution

Are there any rules as to when I have to take a distribution to pay a qualified expense?

You can pay the school directly or reimburse your child or yourself for a bill paid as long as both the distribution from the 529 plan and the payment of the bill occur in the same tax year. If you are receiving financial aid, check the school's financial aid treatment of making direct payments to the school from a 529 plan prior to issuing the check to help minimize the possibility of any negative impact on your financial aid award.

Talk with your financial professional or the 529 plan administrator well in advance of needing the funds so that you understand the withdrawal process and how long it will take to get the funds.

I paid for qualified education expenses using my child's 529 plan and now some of it has been refunded. What are my options?

The funds may be recontributed to that student's 529 plan within 60 days after the date of the refund to avoid the potential for a nonqualified distribution.

Consider using those funds to pay for upcoming qualified expenses within the same tax year instead, if applicable.

[4] This hypothetical example is designed to illustrate the effect of certain planning strategies based on stated assumptions. The strategy described may or may not be suitable for your particular situation. Before implementing any strategy, you should seek the advice of your tax and legal advisors. No guarantee of specific results is made; past performance is no guarantee of future results.

If I claim the American Opportunity or Lifetime Learning Credit on my tax return, am I still able to take a tax-free distribution from the 529 plan?[5]

Yes, as long as you are not using the same expenses to qualify for both benefits.

Do I send my receipts to the IRS?

No. Save receipts with your tax records since the IRS may request them later.

What if I saved too much and have funds leftover after paying for my child's education?

If you have unused 529 funds and do not want to take a nonqualified distribution there may be other options. If it is a noncustodial 529 you can change the beneficiary to a qualified family member as discussed in one of the earlier questions.

Another option now available by the passing of the Secure Act 2.0 is the potential to make direct rollover contributions from the 529 plan to a Roth IRA for the designated beneficiary if certain conditions are met:

- 529 must have been maintained for 15 years
- May not exceed the aggregate of contributions (and earnings attributable thereto) made more than five years before the date of the rollover
- May not exceed $35,000 lifetime limit
- Are subject to annual Roth IRA contribution limits
- The Roth IRA owner must have earned income at least equal to the amount of the rollover. Modified adjusted gross income (MAGI) limits do not apply.

Due to the complexity of these rules, discuss this option with your tax advisor prior to any distribution.

Talk to a Wells Fargo Professional

The information above should provide you a good basic knowledge of 529 plans. However, there may be many more questions that come up which were not addressed here. Please consult your financial professional and tax advisor to discuss these or any other questions you may have regarding your situation. We welcome the opportunity to work with you to help you achieve your financial goals.

[5] See IRS publication 970 and/or contact the eligible institution for more details.

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