

Iowa Tax Reform Guidance: College Savings Iowa (529 Plan) Deduction

Iowa Governor Kim Reynolds signed Senate File 2417, an extensive state tax reform bill to improve the tax structure in Iowa. The 2018 Iowa Tax Reform Bill includes an updated federal conformity provision beginning with tax year 2018, which allows the same deductions for certain with-drawals from a **College Savings Iowa** and **IAdvisor 529** Plan Accounts (529 Plans) and certain rollovers at the state level that are allowed at the federal level.

529 Plans, administered by the Iowa Treasurer of State, help Iowans save money to pay for certain educational expenses for a specific beneficiary. Any money contributed to the account during a given year may be deducted on the account holder's Iowa income tax return for that year, subject to an **annual contribution cap**.

Contributing to the Plan

Iowa taxpayers have until the Iowa individual income tax return deadline for a given year to contribute to their College Savings Iowa accounts for that year. The deadline is generally April 30. Contributions to College Savings Iowa or the IAdvisor 529 Plan that were previously deducted for Iowa income tax purposes must be included as Iowa income when distributed, unless they are used to pay for qualified education expenses.

Using the Money

The money in the account can be used to pay for the beneficiary's qualified education expenses, which until recently were limited to certain expenses related to attending college. Beginning January 1, 2018, for Iowa tax purposes, qualified education expenses include up to \$10,000 per beneficiary, per year for tuition expenses for attending an accredited elementary or secondary (K-12) school in Iowa.

What is the annual cap for withdrawals?

The cap is a \$10,000 per year, per beneficiary limitation on withdrawals for K-12 expenses which applies even if the beneficiary receives money from multiple accounts. The account holder is responsible for paying taxes on any withdrawal that exceeds the cap for a specific beneficiary. The annual cap does not apply to withdrawals used to pay for qualified education expenses related to higher education.

Mission Statement:

The mission of the Iowa Department of Revenue is to serve Iowans and support state government by collecting all taxes required by law, but no more.



Qualifying for the Rollover

Beginning January 1, 2018, funds from Iowa 529 Accounts may be rolled into Iowa ABLE Accounts without causing a state tax liability, as long as the ABLE account belongs to the beneficiary of the 529 account, or a member of that beneficiary's family. The rules for rollovers between 529 Accounts have not changed.

For more information on Iowa's 529 Plans, visit CollegeSavingsIowa.com and IAdvisor529.com.

Qualifying for the Tuition and Textbook Credit

Taxpayers who have one or more dependents attending grades K-12 in an Iowa school may take a credit for each dependent for amounts paid for tuition and textbooks. The credit is 25% of the first \$1,000 paid for each dependent for tuition and textbooks. Dependents must have attended a school in Iowa that is accredited under section 256.11, not operated for a profit, and adheres to the provisions of the U.S. Civil Rights Act of 1964.

If expenses qualify for both the tuition and textbook credit and 529 Plan, taxpayers may claim both.

What does this mean?

- Taxpayers can now withdraw up to \$10,000 per beneficiary to pay K-12 tuition expenses tax free - at accredited schools located in Iowa only.
- Taxpayers can roll over funds from an Iowa 529 Account to an Iowa ABLE account tax free as described above.
- If expenses qualify for both a tax free 529 plan deduction, as well as the tuition and textbook credit, taxpayer may claim both.