



CONGRESS LOOKS TO EXPAND 529 COLLEGE SAVINGS PLANS

Last month the Senate Finance Committee unanimously approved S.335, *To amend the Internal Revenue Code of 1986 to improve 529 plans*, following the House Ways and Means committee which approved, H.R. 529, an identical measure in February.

WHAT ARE 529 COLLEGE SAVINGS PLANS

529 College Savings Plans were created in 1996 by the “*Small Business Job Protection Act*” and the plans further evolved in 2001, when then President Bush signed into law “*The Tax Relief Act of 2001*,” turning 529 plans from tax-deferred plans into tax-free college savings plans through 2010. In 2006, “*The Pension Protection Act*,” includes a provision making permanent the tax-free status of 529 plans. In 2013, 529 plan assets reached \$204.5 billion, illustrating the importance and use of these tax-free plans as a way to help parents save for college.

529 plans can be used for both traditional four-year institutions, but also trade and vocational school, additionally; the plans have no time limit on usage and therefore, can be used at any time the beneficiary decides to explore higher education.

CURRENT LEGISLATION

The legislation would allow money from 529 college savings plans to be used to purchase a computer for the use by the student. Previously, the student could only use 529 money to purchase a computer if it was required by the college the student attends. Additionally, the legislation would allow a student to redeposit funds into the 529 account if they withdraw from college within 60 days and avoid a penalty and simplifies tax rules for distribution from multiple accounts.

The proposed changes to the 529 plans followed the President announcing that he was considering included in his FY 16 budget proposal the elimination of the tax-free treatment of 529 plans and taxing the plans earnings. Many argue that 529 plans are a key tool for middle-class families to save for college.

With strong bipartisan, bicameral support, there is significant confidence that this bill will reach the President’s desk for signature.

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