What Is a "529" Plan and How Does It Work?

On July 4, 2025 President Trump signed into law legislation created by the Tomorrow's Workforce Coalition, of which IHMM is a part, that expands the permissible uses of an IRS 529 plan to include certain expenses relating to acquiring and maintaining a professional certification.

An IRS 529 plan is a tax-advantaged savings vehicle designed to encourage saving for future education costs. Named after Section 529 of the Internal Revenue Code, these plans are administered by states or educational institutions and offer tax benefits to the contributor and beneficiary when used for qualified education expenses.

What is a 529 Plan?

A 529 plan allows individuals to save for education costs in a tax-advantaged way. The plan can be used for college, vocational schools, certifications, K-12 tuition, apprenticeships, and student loan repayment. There are two types of 529 plans:
- Education Savings Plans: Investment accounts for a range of educational expenses.
- Prepaid Tuition Plans: Allows pre-payment of tuition at today's rates at eligible institutions.

Key Features

- Contributions are made with after-tax dollars (not deductible on federal taxes), though 35 states have some form of either state tax credit or deduction for 529 plan contributions within certain limits.
- Earnings grow tax-deferred.
- Withdrawals are tax-free when used for qualified education expenses.
- No income limits for contributors.
- High contribution limits (typically \$300,000–\$500,000 per beneficiary depending on the state).
- Account owner retains control of the account.
- Beneficiaries can be changed to another qualifying family member.

Qualified Education Expenses

Funds from a 529 plan can be used tax-free for:
- Costs relating to acquiring and maintaining a professional certification.
- College tuition, fees, books, supplies, room and board (if enrolled at least half-time).
- K-12 tuition (up to $10,000 per year per student).
- Apprenticeship programs registered with the U.S. Department of Labor.
- Student loan repayment (up to $10,000 lifetime limit per beneficiary).

Non-Qualified Withdrawals

Withdrawals used for non-qualified expenses are subject to income tax and a 10% penalty on the earnings portion. Exceptions to the penalty include:
- The beneficiary receives a scholarship (penalty waived on withdrawals up to the scholarship amount).
- The beneficiary dies or becomes disabled.
- The beneficiary attends a U.S. military academy.

Investment Options

Most 529 plans offer a selection of investment portfolios, such as:
- Age-based portfolios: Adjust automatically as the beneficiary approaches college age.
- Static portfolios: Allow the account holder to choose a fixed investment strategy.
- Individual funds: Provide more control over asset allocation.

New Roth IRA Rollover Provision (Effective 2024)

Beginning in 2024, up to $35,000 of unused 529 funds can be rolled over into a Roth IRA for the beneficiary. Requirements include:
- The 529 plan must have been open for at least 15 years.
- The rollover is subject to annual Roth IRA contribution limits.
- Contributions and earnings within the last 5 years are ineligible.

How to Open a 529 Plan

1. Choose a plan—either from your state or another state's plan.
2. Open an account online or through a financial advisor.
3. Choose your investment options.
4. Make contributions (some plans require as little as $25 to start).

Most U.S. states offer state income tax deductions or credits for contributions to 529 college savings plans, including states with full or partial tax benefits.

☑ States Offering 529 Tax Deduction or Credit (35 States + D.C.)

Parity States (Allow deductions/credits for any state's 529 plan)

Arizona, Arkansas, Kansas, Maine, Minnesota, Missouri, Montana, Ohio, Pennsylvania

States Offering In-State Plan Tax Benefit

Alabama, Colorado, Connecticut, Georgia, Idaho, Illinois, Indiana (credit), Iowa, Louisiana, Maryland, Massachusetts, Michigan, Mississippi, Nebraska, New Mexico, New York, North Dakota, Oklahoma, Rhode Island, South Carolina, Utah, Vermont, Virginia, West Virginia, Wisconsin, Washington, D.C.

🚫 States with No 529 Contribution Tax Benefit

No State Income Tax (No Deduction Available)

Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington, Wyoming

Income Taxed but No 529 Deduction/Credit

California, Delaware, Hawaii, Kentucky, New Jersey, North Carolina

📝 Summary

- 35 states + D.C. provide a state tax deduction or credit for 529 contributions.
- 9 states (and D.C.) extend this benefit for contributions to out-of-state plans.
- 15 states either don’t tax income or offer no 529 tax benefit.

Note: Some states offer a credit (e.g., Indiana, Oregon, Vermont) instead of a deduction, which may be more valuable depending on your income.

Great News!

A 529 plan is a powerful tool for education planning, offering tax advantages, flexibility, and a variety of investment options. While contributions are not federally tax-deductible, the ability to grow funds tax-free and withdraw them without penalty for educational expenses makes these plans an attractive option for families.

Starting July 4, 2025, though after the Internal Revenue Service promulgates regulations pursuant to the changes made in the 529 statute, our certificants will be able to create their own 529 plans and accumulate funds in those accounts for use to pay their certification expenses.