Frequently-Asked Questions About

December 2015 Legislative Impacts to 529 Plan Accounts

Overview

What changed for 529 plan accounts in December 2015?

Congress passed legislation that made three substantive changes to 529 college savings accounts. The legislation:

1. Added items to the list of qualified higher education expenses for which account owners can use funds tax-free. See Qualified Higher Education Expenses below.
2. Allows account owners to redeposit some distributions without taxes and penalties in certain circumstances. See Redepositing a Refund below.

3. Changed the method for calculating earnings on distributions for those with more than one account for the same beneficiary. See Calculation of Earnings below.

What does this mean for me?

These changes make 529 plan accounts more flexible by increasing the list of qualified higher education expenses and allowing account owners to redeposit some refunds from educational institutions without taxes for non-qualified distributions.

What caused these changes?

The Protecting Americans from Tax Hikes Act of 2015, included in a larger tax and spending package passed by Congress and signed into law on December 18, 2015, included the changes to 529 college savings accounts. The enhancements to 529 accounts were included originally in HR 529, introduced in the House of Representatives earlier in 2015 at the request of Virginia529 and other college savings plans across the country. We regularly advocate on behalf of current and prospective customers to make 529 plans more effective vehicles to help American families plan and save for future higher education expenses.

Qualified Higher Education Expenses

What are the new qualified higher education expenses?

Certain technology equipment used primarily by the beneficiary during any of the years the beneficiary is attending an eligible educational institution is now a qualified higher education expense. Eligible devices include computers, printers, scanners, certain other peripheral equipment, software, and internet service. Software does not include computer software designed for sports, games, or hobbies unless the software is predominately educational in nature or part of schoolwork. This change applies to qualifying technology purchases as of January 1, 2015 (the start of the calendar year in which the law was passed).

Weren't computers qualified expenses before now?

Previously, a computer was considered a qualified higher education expense only if a college or university required in writing that a student have one. Under the new definition, no such written requirement is needed.

Redepositing a Refund

In what circumstances may I redeposit a prior distribution without tax or penalty?

When an educational institution processes a refund for qualified higher education expenses for which you used 529 account funds, the account owner now may redeposit them into a 529 account for the same beneficiary to avoid triggering a tax on earnings or penalty for a non-qualified distribution. This is particularly helpful when a student becomes ill and withdraws shortly after the start of a semester and receives a refund for tuition paid. Funds must be recontributed within 60 days of the refund into an account for the same beneficiary to qualify. This new rule is effective as of January 1, 2015 (the calendar year in which the law was passed).

What if I received a refund in 2015 and more than 60 days have passed?

If you received a refund between January 1, 2015 and December 17, 2015, Congress gave you an extension, until February 16, 2016, to redeposit the refund. For refunds received on or after December 18, 2015, the deadline is 60 days after the refund date.

How do I redeposit a refund?

You may send the funds to Virginia529 using your normal preferred method. So that we may record the redeposit appropriately, please inform Virginia529 in advance, or at the same time as you make the deposit, that you are taking advantage of this refund provision. Contact Virginia529 by one of the methods below:

- Email: customerservice@virginia529.com
- Online: www.virginia529.com/contact/
- Fax: 1-866-757-1295
- Mail: Virginia529 inVEST, P.O. Box 759226, Baltimore, MD 21275-9226

Calculation of Earnings

What changed in the calculation of earnings on distributions for those with more than one account for the same beneficiary?

The legislation modified how 529 plans are required to calculate earnings on distributions for those having more than one account for the same beneficiary. Previously, for those with multiple accounts for the same beneficiary, 529 plans were required to aggregate earnings on distributions as if the multiple accounts were a single account. This was an administrative burden on the plans and difficult for account owners to understand. Commencing with distributions in 2015, aggregation is no longer required.

How does this affect tax reporting of distributions and the delivery of Form 1099-Q?

Annually, 529 plans are required to send a statement of distributions and earnings with respect to 529 accounts which took distributions in the calendar year. For distributions to a school or beneficiary, the statement is sent to the beneficiary; for distributions to the account owner, the statement is sent to the account owner. The statement is sent on a federal Form 1099-Q and typically must be sent by January 31 of the year following the distribution. Because the method for calculating earnings was not changed until mid-December and is effective for distributions made in 2015, Virginia529 will be delayed in sending 2015 1099-Q forms. Virginia529 and other 529 plans are working on system modifications to implement the change and will issue the 2015 1099-Qs as soon after January 31 as possible.

If I took distributions from my account in 2015, how does this impact me?

If you determine that all 2015 distribution(s) were qualified expenses, you should not need to report any earnings on distributions for 2015 and so are not impacted by the delay.

If any part of any distribution was for non-qualified higher education expenses or exceeded qualified higher education expenses, you may have income tax consequences and be required to report earnings with respect to those non-qualified distribution. Although the earnings calculation change only affects those with multiple accounts for the same beneficiary, all 1099-Q reporting will be impacted by the change.

Consult a tax professional for more information on either scenario.