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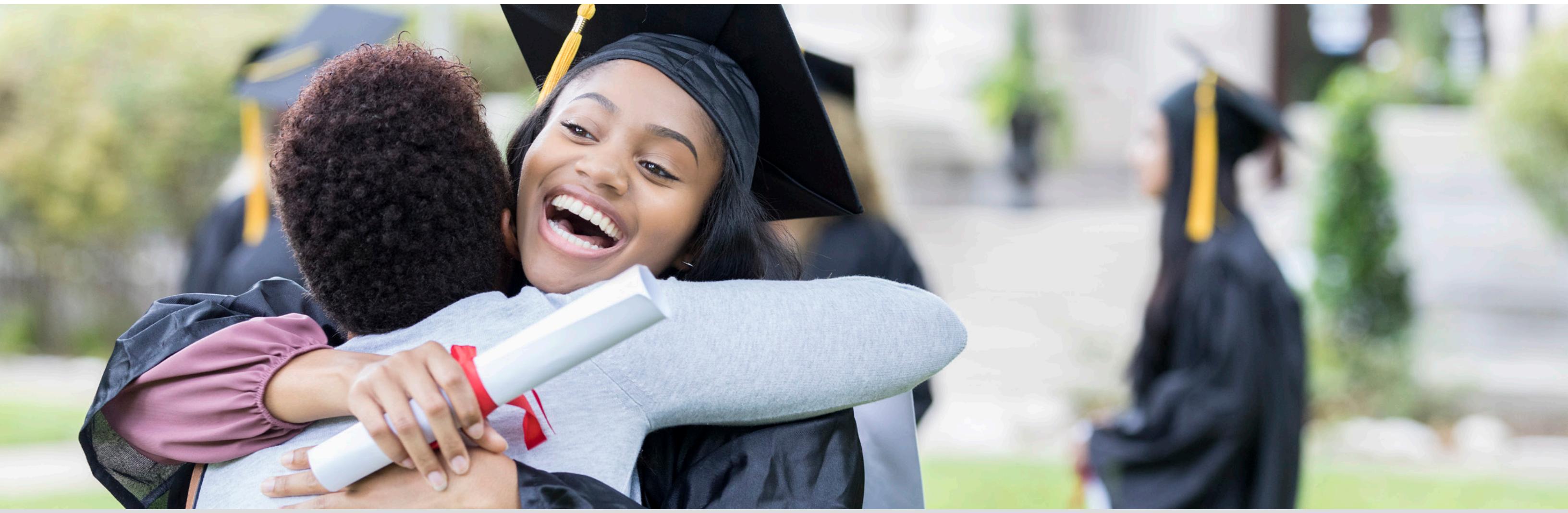

The SECURE Act 2.0 allows tax-free rollovers of 529 funds to Roth IRAs

Understanding how the tax law affects education savings plans.

Effective in 2024, beneficiaries of 529 college savings accounts may transfer unused funds directly to a Roth IRA. The industry is still striving to clarify certain specifics, but we do know the general requirements.

This is an innovative planning opportunity for families that overfunded 529 accounts for certain beneficiaries or who may now choose to intentionally do so to take advantage of this benefit.

Of course, there are rules that must be followed. The Roth IRA must be in the name of the beneficiary and the 529 plan has to be established for 15 years. However, future guidance from the IRS will be necessary in determining whether changing the beneficiary of a 529 restarts the 15-year waiting period. The lifetime amount that can be transferred is $35,000 and subject to the annual contribution limits. This means the rollover would need to be done over several years.

ABOUT THE NEW 529 ROLLOVER LAW

A statement from the United States Senate Committee on Finance regarding the rationale behind this new law:

"Families and students have concerns about leftover funds being trapped in 529 accounts unless they take a nonqualified withdrawal and assume a penalty. This has led to hesitating, delaying or declining to fund 529s to levels needed to pay for the rising costs of education. Families who sacrifice and save in 529 accounts should not be punished with a tax and penalty years later if the beneficiary has found an alternative way to pay for their education."

Beneficiaries doing the rollovers must have earnings equal to or greater than the rollover amount. Any Roth IRA or traditional IRA contributions made by 529 beneficiaries would count against the annual limit. Rollover amounts can't include any 529 contributions or earnings on those contributions made in the preceding five-year period.

It's also important to note that income limitations on Roth IRA contributions do not apply to these rollovers. The rollover from a 529 to a Roth is a nontaxable distribution.

All in all, this new law helps alleviate your concern about overfunding a 529 college savings account because it gives you the option to reposition the unused funds to a tax-advantaged Roth IRA.

We can help you determine if you meet all of the requirements for taking advantage of this opportunity.

This material is general in nature and provided for informational purposes only. Raymond James does not provide tax or legal services. Please discuss these matters with the appropriate professional.

As with other investments, there are generally fees and expenses associated with participation in a 529 plan. There is also a risk that these plans may lose money or not perform well enough to cover college costs as anticipated. Most states offer their own 529 programs, which may provide advantages and benefits exclusively for their residents. Investors should consider, before investing, whether the investor's or the designated beneficiary's home state offers any tax or other benefits that are only available for investment in such state's 529 college savings plan. Such benefits include financial aid, scholarship funds and protection from creditors. The tax implications can vary significantly from state to state.

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