Anchin Alert

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Tax Cuts and Jobs Act Impacts 529 Plans

Under the Tax Cuts and Jobs Act, the definition of qualified higher education expenses has now been expanded to include tuition expenses for public, private or religious school from Kindergarten through 12th Grade if paid after December 31, 2017. Parents can now take a tax-free distribution of up to $10,000 per year per beneficiary for qualified K-12 **tuition expenses**.

However, states that do not automatically follow federal laws are still determining whether or not K-12 tuition will be considered a qualified expense. On January 17, the New York State Department of Taxation and Finance issued a preliminary report on this new tax act and it states that “it appears that distributions for K-12 tuition expenses would **not** be considered qualified distributions under the New York statutes implementing 529 accounts, and would trigger the recapture of any tax benefit that had accrued on contributions.”

Nonqualified distributions will cause the earnings to be subjected to state and local tax in the year it is distributed, in addition to the recapture of state deductions previously utilized on the contributions. The report further says the New York State Department of Taxation and Finance “will continue to review the federal law’s provisions on 529 Plans on New York Residents, and welcome discussion for possible solutions and alternatives.”

Your Anchin partners are evaluating the impact of these changes. In the meantime, feel free to reach out to your Anchin Relationship Partner to discuss this and other tax reform topics, or contact Richard Stieglitz, Partner in Anchin’s Tax Department.

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