

## Tax planning: education saving

Understanding how the tax law affects education savings plans.

Given the complexity of changes to the tax code in the United States, there is much to consider in determining the impact tax legislation will have on education savings plans.

### EDUCATION SAVING

**Section 529 savings plans:** Since 529 plans cover primary and secondary (or K-12) public, private or religious education expenses for up to \$20,000 per year per student – in addition to postsecondary expenses – you may want to open and fund, or add to, existing accounts for children, grandchildren or other family members. You should consult with your tax advisor regarding any federal gift tax return filing requirements.

**Accelerated 529 funding:** You can make a single contribution to a 529 account, and it will effectively be treated as if it were made over five years for gift tax purposes. In other words, you can gift the equivalent of five years' worth of annual gift tax exclusions – \$95,000 for individuals, \$190,000 for married couples – in a single year without using any gift tax exemption. You should consult with your tax advisor regarding any federal gift tax return filing requirements.

**State income tax benefits:** While contributions to 529 accounts are nondeductible for federal income tax purposes, many states allow a state income tax deduction or credit for funding their state plan. Depending on your objectives, you should consult your tax advisor before making a contribution to determine if this benefit is available in your state.

### IMPORTANT TOPICS

Section 529 plans  
Accelerated funding  
Tax-free gifts  
Rollovers to ABLE accounts

### CARES ACT

- You can earmark the money for other types of education, like graduate school.
- You can change the beneficiary to another member of the family (ideally in the same generation) as many times as you like, since most 529s have no time limits. This option is particularly helpful if your original beneficiary chooses not to go to college at all.
- You can take the money and pay the taxes on any gains. Normally, you'd expect to pay a penalty on the earnings too. But that's not the case for scholarships. The penalty is waived on amounts equal to the scholarship as long as they're withdrawn the same year the scholarship is received, effectively turning your tax-free 529 into a tax-deferred investment. Of course, you can always use the funds to pay for other qualified education expenses too, like books, supplies and room and board.
- Funds in a 529 plan can be rolled into a Roth IRA for the beneficiary if the 529 plan account meets certain requirements. Consult with a tax professional about this option and whether the 529 plan account is qualified for this rollover option.

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**Tax-free gifts for tuition expenses:** Consider making unlimited tax-free gifts for tuition for family members or friends. As long as the gifts are made directly to the educational institution, the payments don't count against your annual gift tax exclusion, nor are they limited to the annual exclusion amount.

**Tax-free rollover for disabled individuals:** The legislation allows tax-free rollovers from a 529 account to an Achieving a Better Life Experience (ABLE) account in an amount up to the annual gift tax exclusion, currently \$19,000. Individuals with disabilities and their families can use ABLE accounts to save without disqualifying themselves from income, healthcare, food or housing assistance programs. ABLE account earnings are tax-deferred and are tax-free when withdrawn for qualified disability expenses.

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Let's work together with your tax and legal professionals to determine how the legislation affects you directly.

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Rules and laws governing 529 plans are varied and subject to change. 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.

Raymond James does not provide tax or legal advice. Please discuss these matters with the appropriate professional.

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