

Improvements for 529 plans with PATH Act of 2015

On December 18, 2015, Congress passed the “Protecting Americans from Tax Hikes Act of 2015” (PATH Act), which introduced various improvements to 529 plans, effective retroactively to tax years beginning after **December 31, 2014**, including the following.

Computers

Previously, 529 rules treated a computer as a “qualified higher education expense” only if the beneficiary’s college required it as a condition of enrollment or attendance. But now, under the new law, a computer or peripheral equipment (e.g., printers), computer software, and Internet access or related services *are* considered qualified higher education expenses—as long as the beneficiary is the primary user of the computer, equipment, software, or services while enrolled in school.

Re-contributions

When given a refund from an eligible educational institution of amounts paid out of a beneficiary’s 529 plan account for qualified expenses, account owners can now re-contribute that money into the same or another 529 account for the same beneficiary. Re-contributed refunds will not have federal income taxes or penalties associated with them, provided you re-contribute a refund within 60 days of receiving it, and the re-contributed amount does not exceed the amount of the refund.

Refunds received after **December 31, 2014** and before **December 18, 2015** (the date the law was enacted) may be re-contributed by **February 16, 2016** (60 days after the law was enacted). It’s the responsibility of the account owner to keep all records of refunds and re-contributions.

Withdrawal calculations

The PATH Act also eliminated a burdensome recordkeeping requirement relating to a 529 plan’s calculation of the earnings portion of distributions. Previously, multiple 529 accounts with the same account owner and beneficiary within a program were combined for purposes of calculating the earnings portion of a distribution made during a year. Going forward, the earnings from a distribution will be calculated on an account-by-account basis, even where multiple accounts with the same account owner and beneficiary exist within the same program.

Account owners are encouraged to consult their tax advisor to understand the impact of the PATH Act changes on their individual situations.