<u>529 Rollovers to Roth IRAs</u>

There is a new option from the Secure Act 2.0 that allows you to rollover 529 plans to Roth IRAs. Currently, money in a 529 that's distributed for non-education expenses can be subject to penalties and taxes. Qualifying Roth IRA distributions are not. Many of you may have leftover money in your 529 plans after you or your children finish college and may be able to use this new rollover provision.

Following is some info regarding this option:

- This provision takes effect in 2024.
- The 529 plan must be open for at least 15 years.
- The lifetime limit for the rollover is $35,000 per beneficiary.
- The Roth IRA must be in the name of the beneficiary of the 529 plan.
- Any contributions made within the past five years (and earnings on those contributions) are ineligible to be moved into the Roth IRA.
- The annual limit on the rollover is the IRA contribution limit for the year, less any other IRA contributions.
    - For example, the current IRA contribution limit is $6,500. If the beneficiary made any IRA contributions, the rollover amount must be reduced by those contributions. Therefore, if the beneficiary contributed $2,000 to any IRA, the amount available for rollover is $4,500.
    - Consequently, getting to the $35,000 lifetime limit may take more than five years.
- The rollover must be a plan-to-plan or trustee-to-trustee rollover. This means you cannot take a check from the 529 plan to deposit into the IRA.
- The beneficiary is not subject to income limitations to contribute to a Roth IRA. For example, even if the beneficiary's income is over $153,000 (if single), the beneficiary can make a rollover from the 529 plan to the Roth IRA.
- The beneficiary must have earned income, and the amount that can be rolled over is the lesser of earned income or the IRA contribution limit. Therefore, if the beneficiary is not working, no rollover is available because there is no earned income.
- Although the 529 to Roth rollover can prevent federal tax consequence, you may still incur state tax consequences.
    - Indiana – Indiana allows a credit of up to 20% of Indiana College Choice 529 plan contributions, up to a maximum credit of $1,500 per year ($1,000 per year prior to 2023). This credit must be recaptured (repaid) if the 529 funds are not used for qualified education expenses. 529 rollovers to Roth IRAs are not currently defined as qualified education expenses for Indiana income tax purposes.
    - Ohio – Ohio allows a deduction of $4,000 per beneficiary per year for contributions to the Ohio 529 savings plan. Distributions for other than qualified education expenses require the deduction to be added back to taxable income. 529 rollovers to Roth IRAs are not currently defined as qualified education expenses for Ohio income tax purposes.

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How about opening a 529 account for a newborn? The new 529-to-Roth rollover provision helps address the risk of having leftover funds in the 529 account. If a 529 plan is started when the child is born, at age 16 the funds will have been in the 529 plan for at least 15 years. Once the child is working, they can start moving the money from the 529 to a Roth IRA, if desired. The rollover can be helpful especially in situations in which the child decides not to attend college, is awarded a scholarship, or the expenses are less than anticipated for whatever reason. You can keep making 529-to-Roth rollovers until the $35,000 lifetime transfer limit is reached. Who knows if Congress will increase this amount in the future?

There are certain unanswered questions about this new provision awaiting IRS guidance. One common question is what happens if the 529 beneficiary is changed? Does the 15-year holding period requirement start over? Or does it carry over from the previous beneficiary? I will continue to update you as more information becomes available. Don’t hesitate to reach out with any questions you may have.

Thank you,

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