

NEWSFLASH

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YOU NEED TO ACT NOW TO AVOID UNEXPECTED TAXES ON ANY SECTION 529 PLAN TUITION REFUNDS

As Covid-19 continued to spread throughout the United States many schools and universities closed their campuses and moved to online learning. This caused certain qualified higher educational expenses, such as room and board, to be refunded to the students. If a 529 Savings Plan was used to pay for qualified education expenses and any of those expenses were refunded, this in turn could lead to an unexpected tax bill unless action is taken within 60 days of receiving the refund.

What can be done?

Option One

All refunded tuition funds should be redeposited into a 529 Savings Plan account with the same beneficiary. If the funds are not redeposited, the distribution will be considered a non-qualified taxable withdraw and result in a tax bill for 2020. Any non-qualified distribution taken from a 529 Savings Plan account results in a tax on the earnings portion of the distribution and an additional 10% penalty.

Option Two

If the student plans to attend school in the fall, a student can pay for qualified expenses with the 529 funds previously withdrawn. This payment will avoid having to pay penalties and income taxes on the earnings portion of the distribution. This option is risky given the uncertainty of the fall semester and whether students will be allowed back on campus in the fall. The best decision is to apply any refund to tuition only.

When and how to do it?

Pursuant to the PATH Act, account owners have 60 days from the date of the refund to redeposit the 529 funds and avoid paying taxes or penalties on those funds. If, however, the 60-day period falls between April 1, 2020 to and including July 14, 2020, the redeposit can be made any time before the later of July 15, 2020 or 60 days after the refund date.

The refund must be deposited into any 529 plan/qualified tuition program for the same beneficiary. The redeposit amount should not exceed the refund received. The account owner should contact their 529 Plan providers to determine their specific redeposit requirements. It is important the account owner document the redeposit by including a letter with the check stating the date of the refund from the eligible educational institution and the redeposit process.

This newsletter is courtesy of Pozzuolo Rodden, P.C.

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