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## 529 Plans: Should You Use Them For K-12 Education?



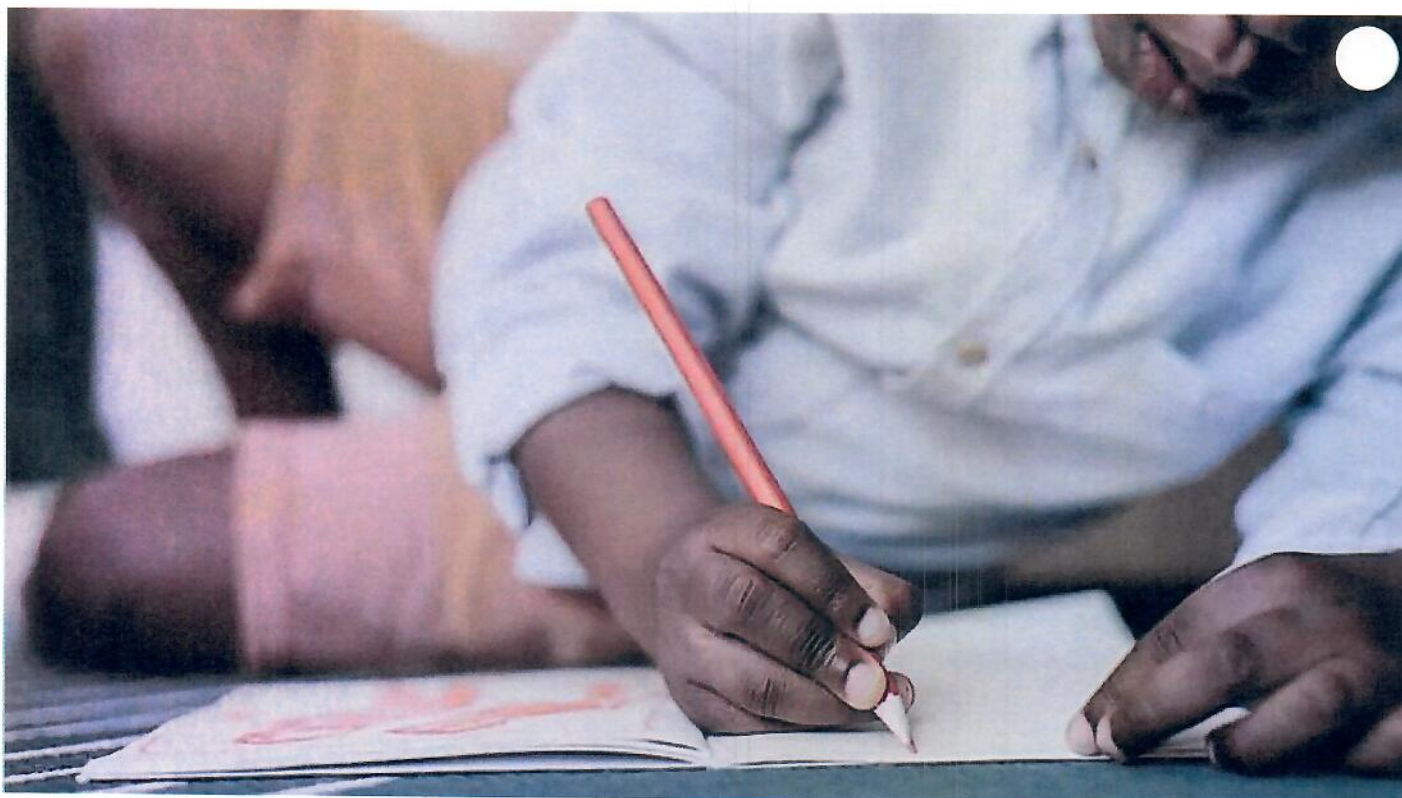
Written By **Reyna Gobel**

Contributor

& 1 other 

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In 2019, changes to federal law made it possible for [529 plans](#), tax-advantaged education investment accounts, to be used for up to \$10,000 each in student loan repayment and K-12 education, in addition to college costs.

## What Is a 529 Plan?

A 529 plan is an education investment account generally authorized by one of 50 states. 529 plans come in two forms. One form has investment options, similar to a 401(k), that you can spend on K-12 tuition or the higher education institution of the student's choice. The other is [prepaid tuition plans](#) where you can prepay college tuition for future years at today's prices.

The first type is the one that would generally be used for K-12 tuition or saving for college without knowing which college the child will attend.

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## How to Use a 529 Plan for K-12 Education

level, your state may give you an income tax deduction or a credit on contributions.

You would likely incur a tax penalty and federal income tax for any amount withdrawn for K-12 textbooks or other expenses beyond tuition. You also could end up with state taxes as a recapture for state tax deductions on contributions.

## Pros and Cons

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### Pros of Using 529 Plans for K-12 Tuition

**Your 529 plan money grows tax-free.** No matter what state you live in, you won't pay taxes on growth from earnings on your investments and savings if you use the money for qualified education expenses.

**Your education savings account is versatile and virtually limitless.** You can save more in a 529 plan account on an annual basis than a [Coverdell Savings Account](#), for instance, which also can be used for qualified education expenses at all levels of education.

**You have a variety of gifting options for K-12 tuition.** 529 plans have gifting options, websites and other resources for asking friends and family members to contribute to your student's education. It can be easier to request direct gift contributions for 529 plans than for other types of investment accounts.

**It can be a great short-term savings strategy if your child is going to private school anyway.** Depending on your state, you may get an income tax deduction or credit for contributions to a 529 plan. You could deposit the money and withdraw it later in the year if needed. If your state income tax rate is 5% and you contribute \$4,000 that you withdraw the same year, you could save \$200 on your taxes.

### Cons of Using 529 Plans for K-12 Tuition

**There are fewer qualifying expenses for K-12 education.** According to the [IRS](#), you can pay for tuition and fees up to \$10,000 in "elementary or secondary (K-12) public, private or religious school of the beneficiary's choosing." Beneficiaries are assigned by the owner of 529 plan accounts as the person whose education will be paid for from this account. The distribution limit takes into account all accounts for the student. For instance, if a grandparent, an aunt or uncle and a parent each open 529 plans for the student, they should coordinate so someone doesn't end up with the 10% penalty plus taxes on earnings on withdrawals. Textbooks and required supplies are qualifying education expenses for higher education withdrawals.

**It could make saving for college harder.** When elementary, middle and high school is in the same money pot as higher education, it may prevent families from saving enough for college. Take time to consider how much you really want to pay for both your child's K-12 schooling and college education. Don't count on scholarships because of athletics or education from a specific school.

years may get confused on what their money may be used for. If using the money for K-12 tuition, let the gifter know that's how the money will be allocated.

**State income tax deductions or credits generally have contribution limits.** The maximum you can contribute to a 529 plan and still get state income tax benefits varies. For instance, New York allows a tax deduction of \$5,000 per taxpayer contributing per beneficiary. Jointly filed tax returns allow for a \$10,000 deduction. If you are able to save more than \$10,000 a year, you won't get a state tax deduction on those additional contributions.

**Not all states allow penalty-free 529 plan withdrawals for K-12 education.** While 529 plans can technically be used for K-12 tuition, not all states allow 529 plans to be used for K-12 education, says Patricia Roberts, chief operations officer for Gift of College, a gift registry website for college savings accounts. Check your state's rules on whether penalty-free withdrawals can be made for K-12 tuition.

## Alternatives to Saving in a 529 Plan

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If you'd like to save for your student's K-12 tuition separately from their college savings, consider a Coverdell Education Savings Account, a [traditional savings account](#) or an [individual retirement account](#) (IRA).

### Coverdell Education Savings Account

Coverdell Education Savings Accounts were one of the main ways of saving tax-free for K-12 education before 529 plans could be used for private school education. Accounts can be set up for students under the age of 18. Up to \$2,000 per year can be contributed per beneficiary, or the student assigned to use the funds, no matter how many accounts are set up for them. All distributions must be made before the beneficiary turns 30.

### Individual Retirement Accounts

IRAs are investment accounts that can only be used, without a penalty, for higher education. They aren't an option for saving for K-12 education. However, they can help you separate college savings from K-12 savings, especially when you've already reached contribution limits for state tax deductions.

### Traditional Savings Account

After you've reached your annual maximum limit for both the Coverdell Education Savings Account and 529 plans, you may decide to keep money that is going to be used fairly soon for K-12 education in a safe place. A traditional savings account may be your best option.

## Compare Private School Costs or Choose a Public School

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term benefit of a private school versus local free public schools.

### **Bottom Line**

Saving for K-12 education in a 529 plan can be a good strategy for families who aren't meeting the state income tax deductions and credits maximums based on money they are putting aside to pay for college. Even if saving for K-12 tuition for the following year, they could end up saving hundreds on their state taxes.

However, families struggling to save for college costs shouldn't look at the opportunity to save for K-12 in a 529 plan as a reason to send their children to a private school. The result could be the student borrowing more for college because the money in the account is used up before college starts.

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