

Save Smart, Spend Smart: 10 Qualified 529 Expenses

ONE OF THE MAIN ADVANTAGES OF A 529 PLAN IS THE ABILITY TO GROW YOUR EDUCATION SAVINGS TAX-FREE. Those tax benefits also apply once you begin withdrawing from the account as long as the funds are used toward eligible expenses.

Since non-qualified withdrawals are taxed as ordinary income to the extent of earnings and may also be subject to a 10% federal income tax penalty, the following list of qualified expenses can help you avoid paying unnecessary taxes and ensure you're using your hard-earned savings as efficiently as possible.

- 1. Postsecondary education tuition** – Whether your child elects to attend a public or private college, community college, or an accredited trade or vocational school after graduation, your 529 savings plan funds can be used toward tuition as long as the school is eligible for federal student aid. The same is also true for graduate school and even some schools abroad.
- 2. Living on or off campus** – As long as your child is enrolled in a degree or certificate-seeking program at least half time according to the school's guidelines, his or her room and board on campus is considered a qualified expense. For those living off campus, the cost of rent and utilities up to the school's allotment is considered qualified, but any amount above the allowance could be subject to taxes.
- 3. Groceries** – This also applies to those living off-campus. Food expenses up to the cost of an on-campus dining plan can be covered by 529 funds, but the tax advantage only applies to necessities—not dining out or entertainment costs. It's best to confirm with your child's school each year to be clear about acceptable amounts.
- 4. Academic fees** – Students may need to pay fees in addition to tuition, such as technology or lab fees, and can use their 529 plan funds toward them. However, activity fees for sports or organizations are not eligible.
- 5. Books and supplies** – In addition to textbooks and class-specific materials, school and office supplies, such as notebooks, pens, pencils, etc., are also covered by 529 funds.
- 6. Computers** – Technology is critical for learning today, and if the school doesn't supply your student with a laptop or desktop computer, purchasing one on your own is considered a qualified expense. This benefit also extends to peripherals such as printers.
- 7. Specialized software** – In addition to hardware, educational or professional programs required to complete coursework count as a tax-advantaged 529 expense. For example, if your child is completing a graphic-design degree, his or her specialized design software would be eligible.
- 8. Internet access** – It's the internet age, so that computer and software won't get your child very far unless they can get connected. Students who live off-campus and aren't on the school's network can use 529 funds for internet service. However, beware of bundling: cable and phone costs may not be covered.

Client Conversations

9. K-12 schooling – 529 funds aren't just for big kids anymore. You can now use up to \$10,000 of 529 money per student each year toward private or religious K-12 tuition in most states (it's best to check with your home state first to be sure they've aligned with the federal tax change).

10. Student-loan repayment and apprenticeships – In 2019, tax reform expanded the use of 529s to allow for funds to be used for qualified student-loan repayments (with a maximum lifetime limit of up to \$10,000) as well as qualified apprenticeships and associated fees.†

This list isn't comprehensive but can give you a general idea of the types of purchases eligible for tax-free 529 purchases. If you're not sure if a particular purchase would qualify, reach out to your financial professional, tax professional, or the financial aid office of your child's school for clarification.

A 529 plan can be used for:



Colleges and universities



Trade and vocational schools



Apprenticeship programs†



K-12 tuition*

† West Virginia state code does not provide for the inclusion of Apprenticeship Programs as a Qualified Higher Education Expense. This means under current law, earnings associated with distributions for these programs would be subject to West Virginia tax but exempt from Federal tax. Consult a tax advisor for further information.

* If using a 529 plan for K-12, it can only be used for tuition up to \$10,000 per year.

Source: IRS, 2021

Qualified Education Expenses:



Tuition and fees



Room and board



Books, supplies, equipment



Expenses for special needs



Computers, software, and Internet



Student Loans**

** Can be used for student loan repayment for a maximum lifetime limit of up to \$10,000

Talk to your financial professional to make the most of a 529 plan.

Sources: Hartford Funds, IRS.gov, and savingforcollege.com, 5/21
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Before investing, an investor should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's 529 plan.

For more information about any 529 college savings plan, contact the plan provider to obtain a Program Description, which includes investment objectives, risks, charges, expenses, and other information; read and consider it carefully before investing. Hartford Funds Distributors, LLC serves as distributor and underwriter for some 529 plans.

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