

## ROTH IRAS

### 529 Plans Get a Boost With Tax-Free Rollovers to Roth IRAs

You'll soon be able to roll over funds from your 529 plan into a Roth IRA, thanks to recent legislation.



(Image credit: Getty)

Maybe you had a child change their mind and not go to college or you saved more than necessary, and now you're wondering what to do with the cash locked away in your 529 plan. Thanks to the SECURE 2.0 Act, you'll soon be able to roll over funds from your 529 plan into a Roth IRA, as long as certain conditions are met. Here's what you need to know about the new changes set to go into effect next year.

#### **What are the new tax rules for 529 plans?**

The SECURE 2.0 Act contains numerous changes to retirement-related provisions. Under Section 126 of the act, the Internal Revenue Code is amended to allow tax-free rollovers from 529s into Roth IRAs under certain conditions. By rolling over unused funds from a 529 account into a Roth IRA, individuals will now be able to avoid income tax and tax penalties that occur when withdrawing funds for non-education expenses. For this reason, we may now see more families opening 529 savings accounts.

Section 126 of the SECURE 2.0 act reads, “Families who sacrifice and save in 529 accounts should not be punished with tax and penalty years later if the beneficiary has found an alternative way to pay for their education. They should be able to retain their savings and begin their retirement account on a positive note.”

### **How Much Can Be Rolled Over?**

There is a limit on how much money you will be able to roll over from your 529 plan to a Roth IRA. The limit for beneficiaries of 529 college savings accounts to roll over to a Roth IRA is \$35,000 over the course of their lifetime. However, these rollovers are subject to Roth IRA annual contribution limits. IRA contribution limits for the 2023 tax year are \$6,500 for people under 50, and \$7,500 for people 50 and older.

### **When does the 529 plan rollover start?**

The 529 plan to Roth IRA rollovers will go into effect on January 1, 2024.

### **What are the limitations on 529 plan rollovers?**

While the ability to rollover funds from your 529 plan to a Roth IRA can be beneficial in some cases, there are a few limitations.

- Your 529 savings account must be open for over 15 years before funds can be rolled over into a Roth IRA.
- If the 529 beneficiary is different from the 529 holder, the Roth IRA must be in the beneficiary's name.
- 529 contributions made within the preceding five years cannot be rolled over.
- The lifetime maximum that can be rolled over is \$35,000.

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