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Q: What is a 529 plan?

A: 529 plans provide tax-advantaged education savings accounts that help save for a designated beneficiary's qualified education expenses. 529 plans are named after and are authorized by Section 529 of the Internal Revenue Code, and many states, state agencies, and educational institutions sponsor 529 plans.

Q: How do 529 plans work and how do they help taxpayers save for college and tuition expenses?

A: Family or friends can contribute funds to a designated beneficiary's 529 account. The contributed funds are invested and managed by the plan's chosen custodian. The earnings created from the contributed funds grow tax-free, which is a major benefit when saving for college.

Q: Does the State of Connecticut sponsor a 529 plan?

A: Yes, and the plans are administered by the Connecticut Higher Education Trust (CHET). Besides providing tax-free growth on earnings from the plan, Connecticut also allows for a state deduction of contributions made to CHET's on Connecticut tax returns. There is no equivalent deduction for contributions at the Federal level, however.

Q: What is the Connecticut deduction for CHET contributions?

A: For single filers, \$5,000 can be deducted from Connecticut taxable income, and \$10,000 for married filing joint taxpayers. The deduction shows up on Line 48 of the CT-1040 tax return.

Q: What if I contribute more than the \$5,000/\$10,000 deductibility limit to my beneficiary's account?

A: The excess contributions can be carried forward for up to 5 years. If you are considering contributing more than \$15,000 in one year, Federal gift tax implications may apply. Have a discussion with your CPA to explore all of your 529 options.