

# Arkansas' 529 plan now an option for Catholic school tuition

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Arkansas families now have the option to use their 529 plan savings toward private K-12 education thanks to a new state law, along with the ease of access with the Gift529 app.

In March, the Arkansas legislature edited the language of a statute to allow tax-free 529 plans traditionally used for college savings to be used for private education. The Tax Cuts and Jobs Act passed by Congress in December made the new distinction, but at the time, language of Arkansas laws did not yet match the federal rule.

“The positive thing about this is for parents or grandparents to be able to use that money and save on being taxed,” said Theresa Hall, superintendent for Catholic Schools. “As far as how it’s going to be regulated, we’re not totally sure on that.”

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## **What is a 529 plan?**

Those who open a 529 plan build savings for a child’s college education tax free. When the child then attends a college, university or vocational school in- or out-of-state, withdrawals from the account will not incur federal income tax. Anyone can make contributions to a plan, starting with as little as \$25.

Because of the updated law, parents can take out up to \$10,000 tax free each year toward private K-12 education, while also continuing to save for college expenses.

“We are telling them that it can only be used for tuition,” said Stacy Peterson, communications director for the state treasurer’s office.

The state treasurer’s office administers Arkansas’ 529 plans.

“What they would need to do is contact our program administrator and request a qualified withdrawal, which is the same thing they’d do for college,” she said.

The account owner would then be given a check to put toward school tuition. However, the state does not track if the money is actually used for tuition.

Peterson said in an Aug. 2 email, “While we monitor the accounts, we cannot control what happens to the money once it is withdrawn. That is ultimately between the account owner and the IRS. Account owners who misuse their funds for items that aren’t related to education could potentially be penalized by the IRS. However, at that point, it is out of our hands.”

## **Breaking it down**

Since January 2015, the program has grown by 31.6 percent or more than \$262 million. According to cumulative data, 483 in-state residents opened accounts since April 1, with 593 total for in- and out-of-state residents as of Aug. 2.

While there’s no way to track what accounts are being used for private K-12 versus college tuition, Peterson said, “We get calls about using it for K-12 regularly.”

According to arkansas529.org, “Arkansas taxpayers can deduct up to \$5,000 (up to \$10,000 for married couples) of their Arkansas 529 GIFT Plan contributions from their Arkansas adjusted gross income.”

Peterson said, “529 plans are great plans in general so it just opens up this benefit to a wider number of people.”

Plans can also be taken out in other states, but families need to check with a financial advisor to make sure they are compliant with federal rules and will indeed be tax free.

In the 2017-2018 school year, the average cost of tuition for one child in a Catholic elementary school was \$3,711, \$6,336 for secondary schools and \$7,832 for a non-Catholic student. There were 6,706 students enrolled in 27 Catholic schools in the state, according to the Office of

Catholic Schools.

"I know they're starting to ask questions and the only thing we can do right now is refer them to their financial advisors to really find out," Hall said of Catholic school parents.

## **First app**

On July 17, Arkansas 529 officially launched an app called Gift AR529, the first app in the U.S. for a 529 plan.

"We are excited about it. We are always looking for ways to be more innovative," Peterson said. "For us, it's twofold; it's beneficial for the account owner because the account owner is eventually going to be able to make edits to that and set up" savings goals. "It's doubly beneficial for us because we are able to help people reach those goals."

The free app, available for Apple users and soon for Androids, allows Arkansas 529 account owners to look at their account balances and history, including deposits and security alerts. It will also keep users updated on news concerning 529 plans. The second phase, due out in the fall, will allow users to transfer money into their accounts.

"Security, that was one of the things we're very conscious of, so that's why it's being unveiled" in phases, Peterson said, adding the app cost the Arkansas 529 College Investing Plan program \$200,000 so far and no taxpayer money was used.

Since its launch, the app has had 467 downloads as of Aug. 6. The state contracted with Central 25 App Works in Springdale to develop and manage the app.