



OFFICE OF THE SUPERINTENDENT OF SCHOOLS  
ARCHDIOCESE OF NEW YORK

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Dear Parents and Guardians,

Last week, you received an important letter from His Eminence, Timothy Cardinal Dolan, regarding certain legislative issues in Albany that could pose significant implications for our Catholic school families. One of the issues discussed was the recent change to federal 529 savings plans. As you may know, the *2017 Tax Cut and Jobs Act* signed into law in late December 2017 expands 529 savings plans. A 529 plan is a special, tax-advantaged account traditionally designed to encourage saving for college, as earnings on funds contributed to 529 accounts are not federally taxed. The new provision expands 529 savings plans with the goal of allowing families to set aside funds not only for higher education expenses, but now for Kindergarten through 12th grade (K-12) tuition.

Initially, we were optimistic that these changes might be financially advantageous to Catholic school families in the Archdiocese of New York. However, additional analysis by the New York State Catholic Conference, and other partners, concludes that the New York State Department of Taxation and Finance has interpreted the law in a way that prevents tuition-paying families from taking full advantage of the reform. As such, the Catholic Conference believes the department may have to amend this ruling or New York State tax law may need to be altered for families to experience the full benefits from federally expanded 529s.

Accompanying this letter, you will find additional details on this issue for Catholic school families prepared by the New York State Catholic Conference, as well as information on how you can join our call for lawmakers in Albany to support tuition-paying families. Please understand that this communication and the accompanying letter should not be interpreted as an attempt to offer tax or financial advice. I encourage you to consult with your tax advisor to determine the best course of action for your family.

Sincerely,

Timothy J. McNiff, Ed.D.

Superintendent of Schools  
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## New York State Catholic Conference

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# Expanded 529 Plans What it Means for Catholic School Families

The 2017 Tax Cut and Jobs Act, enacted last December by Congress and the President, expands **529 college savings plans** to allow those funds to be used also for **Kindergarten – Grade 12 tuition**.

529 plans were enacted in 1996 to help families pay for college by ensuring that the *earnings* on the funds in the accounts *are not subject to federal* income tax. **For example:** A parent deposits \$1,000 into their child's 529 account at the child's birth. The 529 account grows in value and is worth \$2,500 when the child attends college. If the \$2,500 is used to pay eligible college expenses, there is no federal income tax on the \$1,500 earned.

Many states, including New York, enhanced the tax benefit, going above and beyond the *federal* government by changing their *state* tax laws to allow *contributions* to 529 accounts (that's the money *going in*) to be deductible on *state* income taxes. However, New York will likely need to change its tax law again to ensure that withdrawals (the money *going out*) for K-12 tuition are not subject to New York *state* income tax. According to the New York State Department of Taxation and Finance, in its "preliminary" report on the federal tax changes:

*It appears that distributions [from 529 accounts] for K-12 tuition expenses would not be considered qualified distributions under New York statutes ... [and] would trigger the recapture of any [state] tax benefits that had accrued on contributions.*

**To put it another way:** If you are going use funds from a 529 account for K-12 tuition, New York State will likely require you to not only pay back the amount that was deducted from your state income taxes, but you may also have to pay state income tax on any earnings. This could more than offset any federal tax advantage you accrued and result in even greater costs to your family.

The NYS State Catholic Conference is advocating with New York policymakers to ensure that you are not penalized when taking advantage of the expanded federal 529 Plans and that you can obtain the full tax benefits of 529 accounts for K-12 tuition that are available to families for college tuition.

But we need your help! Some organizations, which oppose any government help for tuition-paying families, are working to stop New York State from giving you this benefit.

Go to [www.nyscatholic.org](http://www.nyscatholic.org), click on "Catholic Schools Need Your Help" to add your voice to this very important effort. We need the Governor and lawmakers to help families struggling with elementary and secondary school tuition just as they have helped families with college tuition for 20 years.

In the meantime, it is important that you consult with a tax advisor before utilizing 529 plans for K-12 tuition.