A dark, low-angle photograph of a European city street, likely in Rome, showing multi-story buildings with many windows and balconies. Several flags are visible hanging from the buildings. The street is narrow and leads towards a distant archway. The overall atmosphere is dim and historical.

# **STRUCTURAL RACISM and 529 PLANS**

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## Unpacking Two Very Simple Points

Money matters.

We need to think deeply about privatized school choice options that are gaining traction across the U.S.

**What are 529 plans?**





## The Success of 529 Accounts

As of June 2020, more  
than  
**\$373 billion** was  
invested in  
**14.6 million**  
**529 plans** in the U.S.



# Success of 529 Plans

- **State and federal tax incentives**
- **Flexibility (both with contribution minimums & limits)**
- **Low costs**
- **Simplicity**



# Extraordinarily Simple Savings Vehicles

No tax-break when you put money into the account at the federal level.

About 30 states allow some type of state deduction or credit against state taxes for a contribution.

Money in the account earns income tax-free.

If it is withdrawn for a “qualified expense,” it remains untaxed.

# Extraordinarily Simple Savings Vehicles

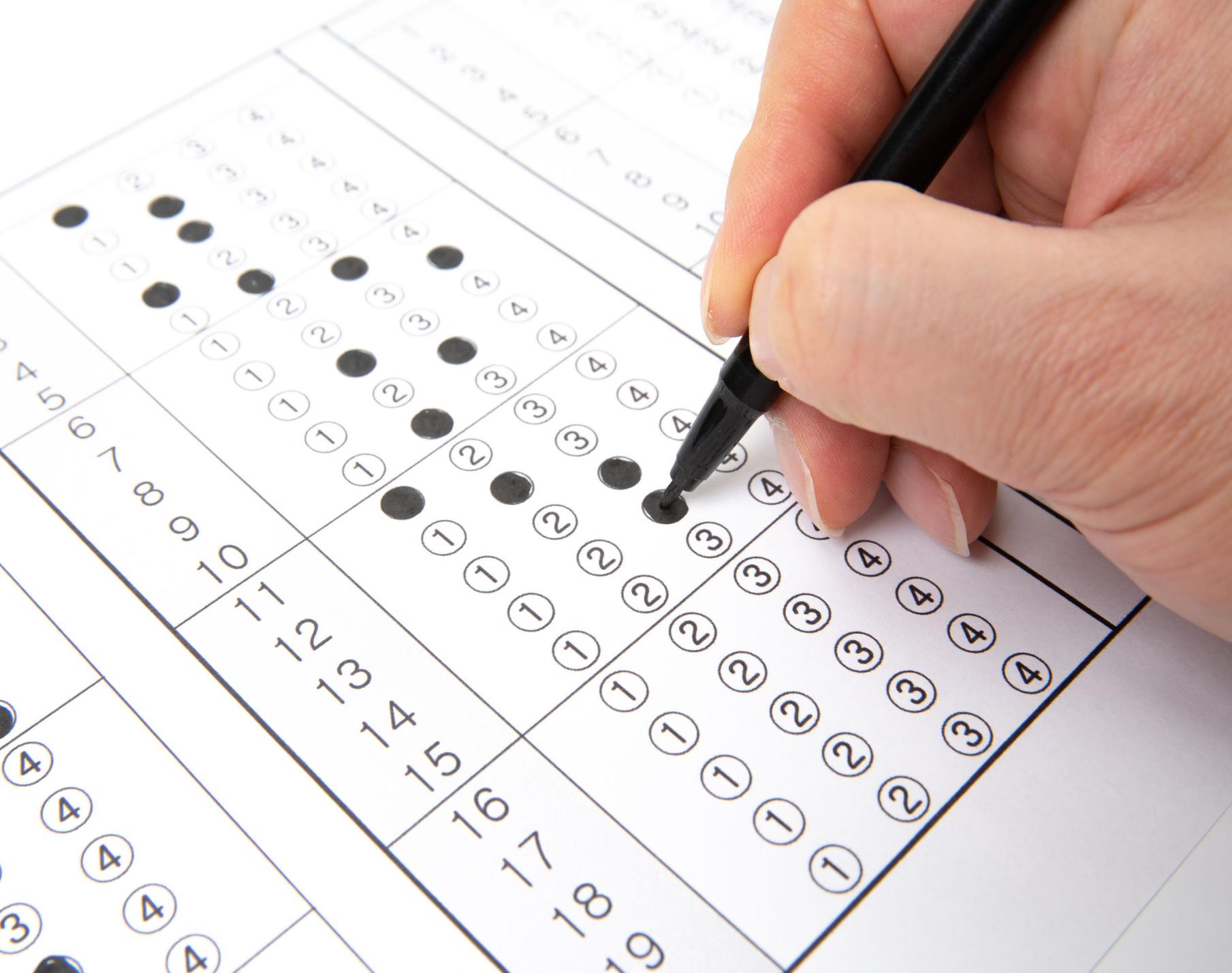
No tax-break when you put money into the account at the federal level.

About 30 states allow some type of state deduction or credit against state taxes for a contribution.

- 7 states have an income tax and do not offer a benefit: CA, DE, HI, KY, ME, NJ, NC

Money in the account earns income tax-free.

If it is withdrawn for a “qualified expense,” it remains untaxed.



## 529 Plan Advantage

No other investment vehicle except the 529 Plan (and the Roth IRA) allows for BOTH tax-deferral and tax-free withdrawals:

income earned on the 529 assets is not subject to federal income tax, and if withdrawn and used for qualified educational expenses, it will *never* be subject to federal income tax.

# Total Contribution Limits By State

## States with the highest limits

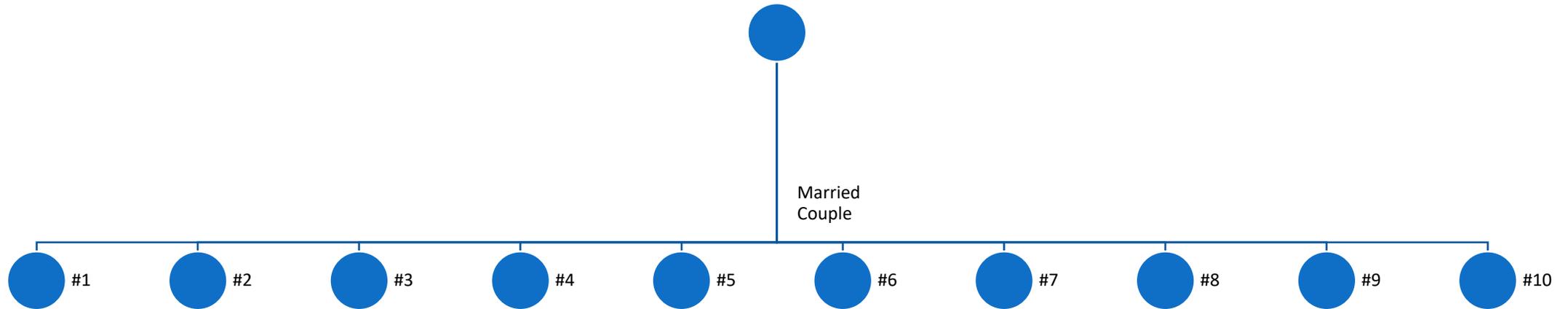
CA	\$529,000
NY	\$520,000
PA	\$511,758
DC, ID, LA	\$500,000
ME, MD, MI, NE NV, NH, NM, SC, VA, WA	

## States with the lowest limits

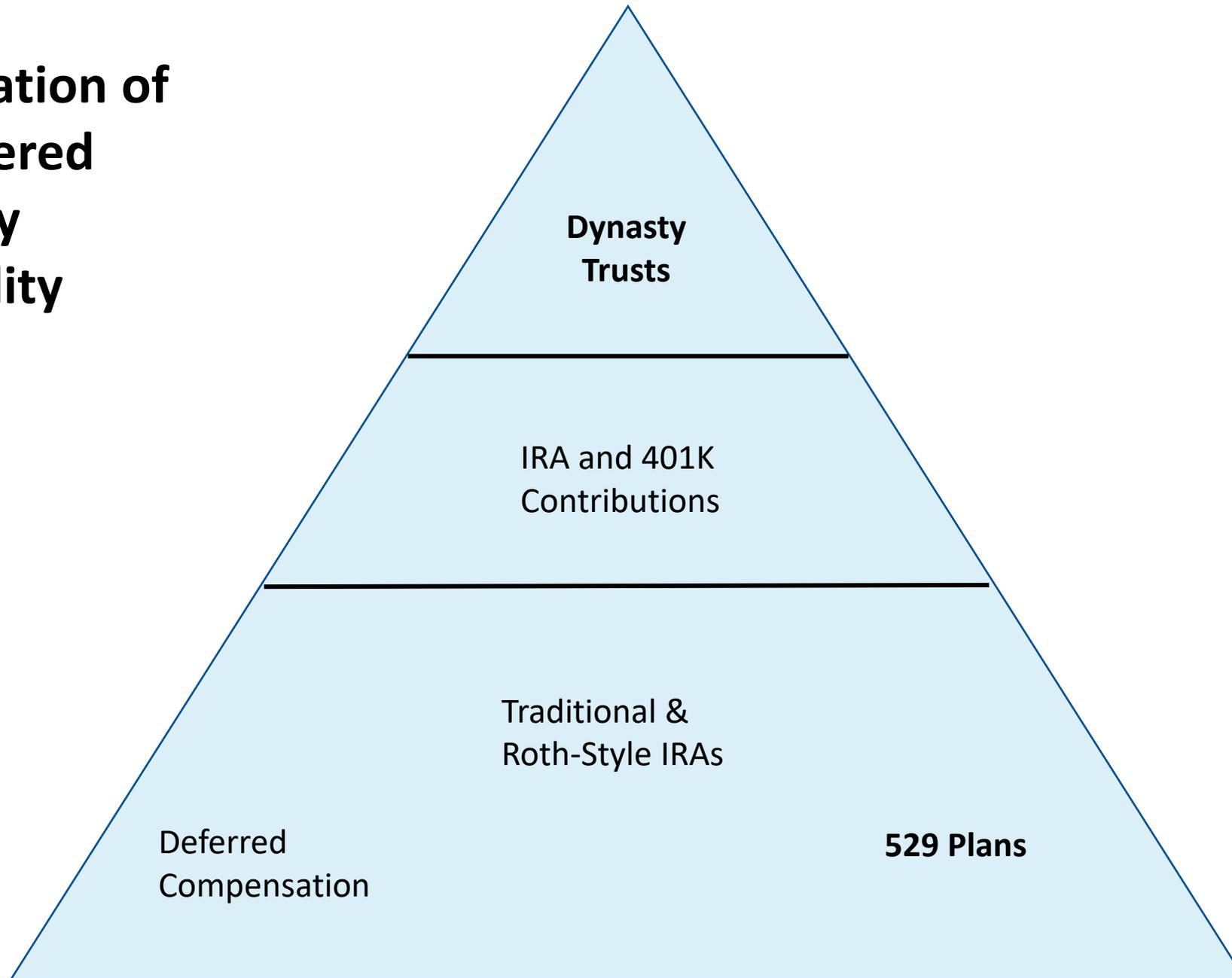
MO	\$325,000
HI, NJ	\$305,000
CT, OK	\$300,000
ND	\$269,000
GA, MS	\$235,000

Married couple with 10 grandchildren “superfund” 10 different 529 plans (one plan for each grandchild).

Every five years, \$1.7 million comes out of the estate transfer tax-free to be deposited into these accounts.

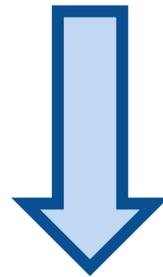
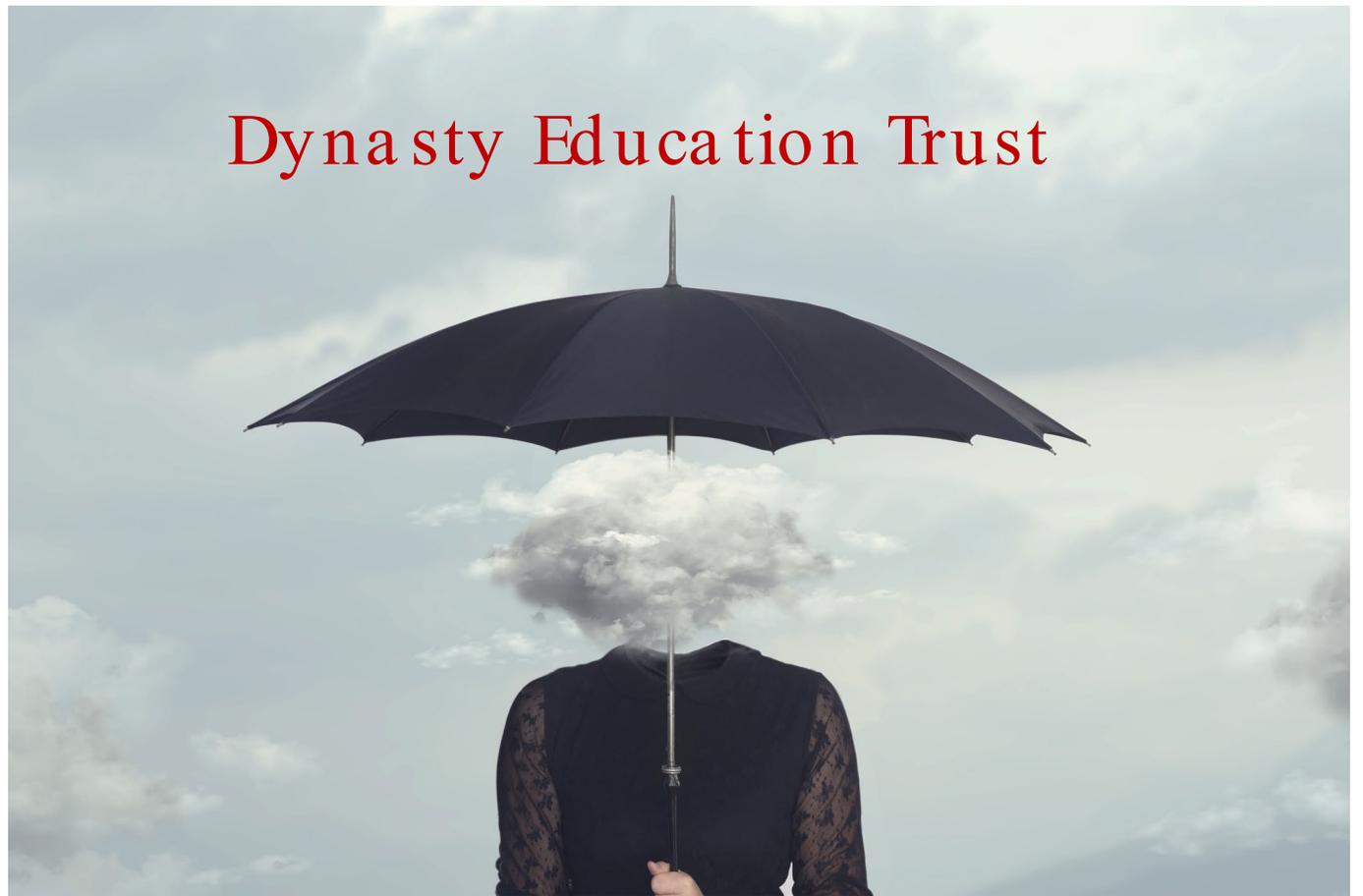


# An Illustration of Tax-Sheltered Savings by Accessibility



## Dynasty Education Trust

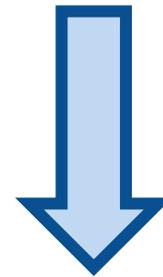
Multiple 529 accounts are managed underneath the umbrella of the Dynasty Education Trust, with the trust serving the “account owner” on every 529 account.



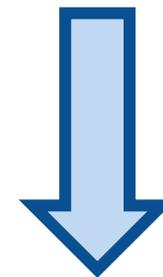
**Account 1**



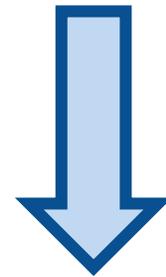
**Account 2**



**Account 3**



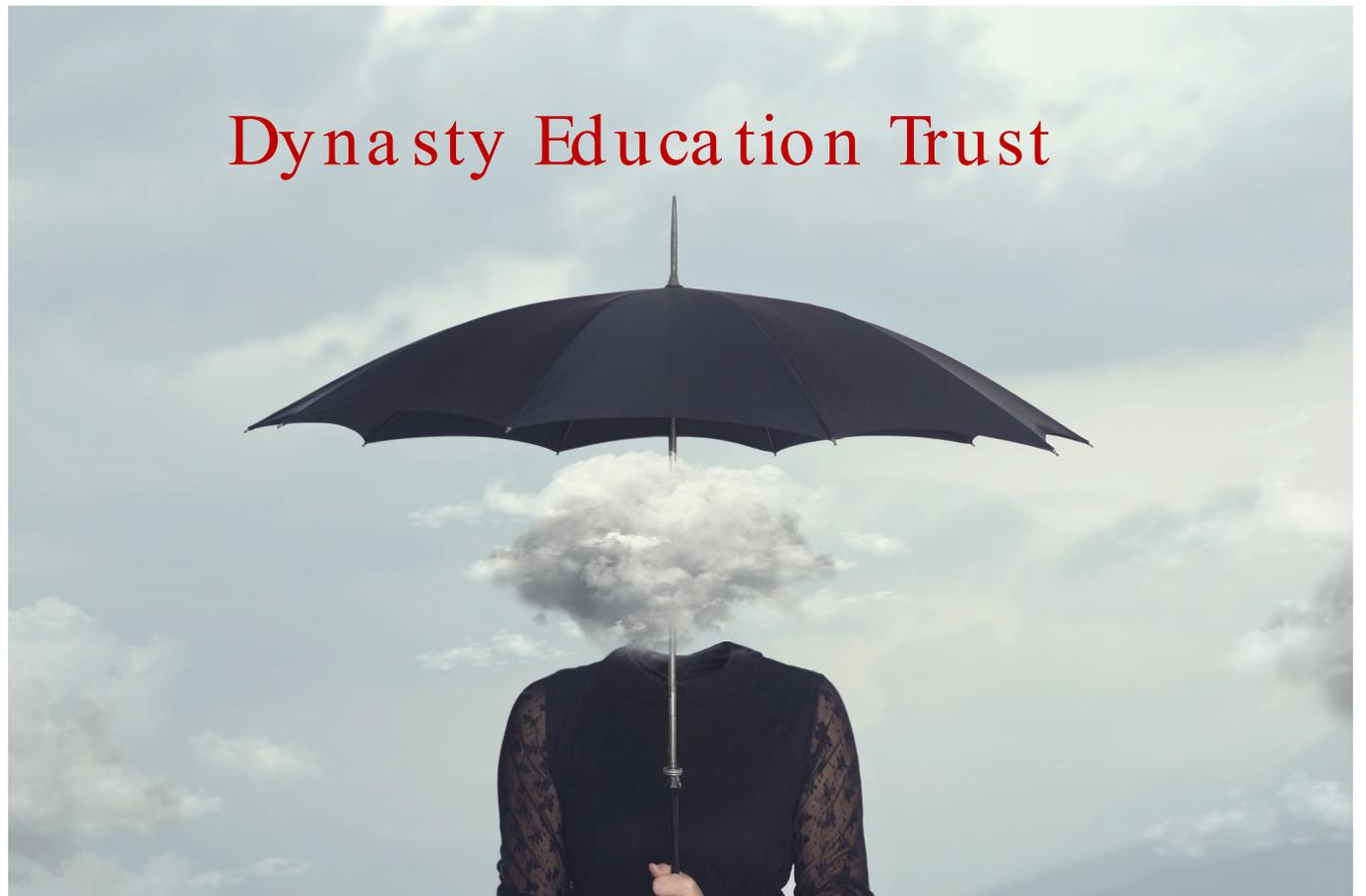
**Account 4**



**Account 5**

## Dynasty Education Trust

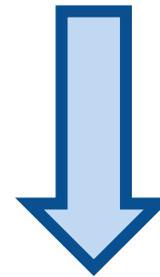
If a designated beneficiary does not need or use all of the money in their 529 account, the trustee can change the beneficiary to another child, grandchild, or great grandchild who has not yet completed their education.



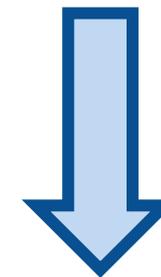
Account 1



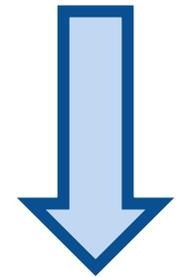
Account 2



Account 3



Account 4

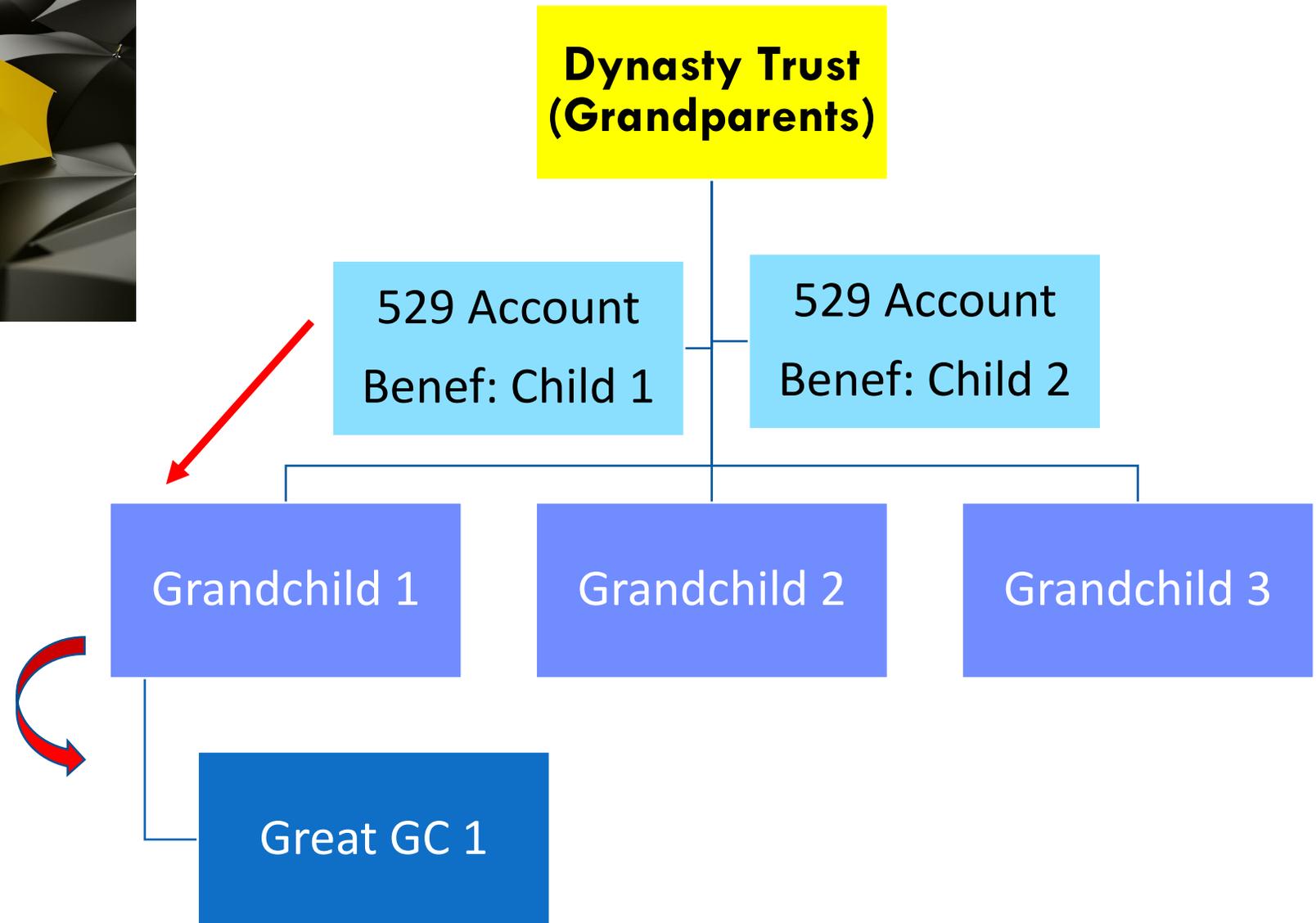


Account 5

**With no gift tax or GST consequence (if done properly).**



529 account established for Child can be transferred to Grandchild 1 when Child's education is complete, and then on to Great GC 1.



**\$75,000** deposited into a 529 Account at the birth of a grandchild.

Assume the contribution earns 5% a year. These earnings are tax-sheltered if used for K-12 education.

- End of Year 1: Earnings \$3,750 (Balance \$78,750)
- End of Year 2: Earnings \$3,938 (Balance \$82,688)
- End of Year 3: Earnings \$4,134 (Balance \$86,822)
- End of Year 4: Earnings \$4,341 (Balance \$91,163)

**There is easily \$10,000 available to be withdrawn tax-free for the child's first year of Kindergarten at a private school.**

**\$5,000** deposited into a 529 Account at the birth of a grandchild.

Assume the contribution earns 5% a year. These earnings are tax-sheltered if used for K-12 education.

- End of Year 1: Earnings \$250 (Balance \$5,250)
- End of Year 2: Earnings \$263 (Balance \$5,513)
- End of Year 3: Earnings \$276 (Balance \$5,789)
- End of Year 4: Earnings \$290 (Balance \$6,079)

**There is only \$1,079 available to be withdrawn tax-free for the child's first year of Kindergarten at a private school.**



“Last week was a big, big week,” Sen. Cruz said. “The Senate got our act together and passed major historic tax reform. And one of the most consequential pieces about it was an amendment that I introduced, that we voted on late Friday night. What it does, is it takes 529 College Savings Plans, which many, many people have. They let you save in a tax-advantaged way for college expenses and are immensely popular. Parents, grandparents can save so that kids can go to college. My amendment expands 529s so now you can not only save to go to college, you can also spend from your 529 plan on K-12 education expenses for public schools, for private schools, for religious schools, for homeschooling. Up to \$10,000 a year, you can save in a tax-advantaged plan and spend \$10,000 per child. You are in charge of your kid’s education. It is the most far-reaching federal school choice legislation ever passed.” – In 2017

## School Choice Advocacy

In 2023, 11 states have introduced and/or passed school choice legislation:

Idaho

Iowa

Kansas

Nebraska

Missouri

North Dakota

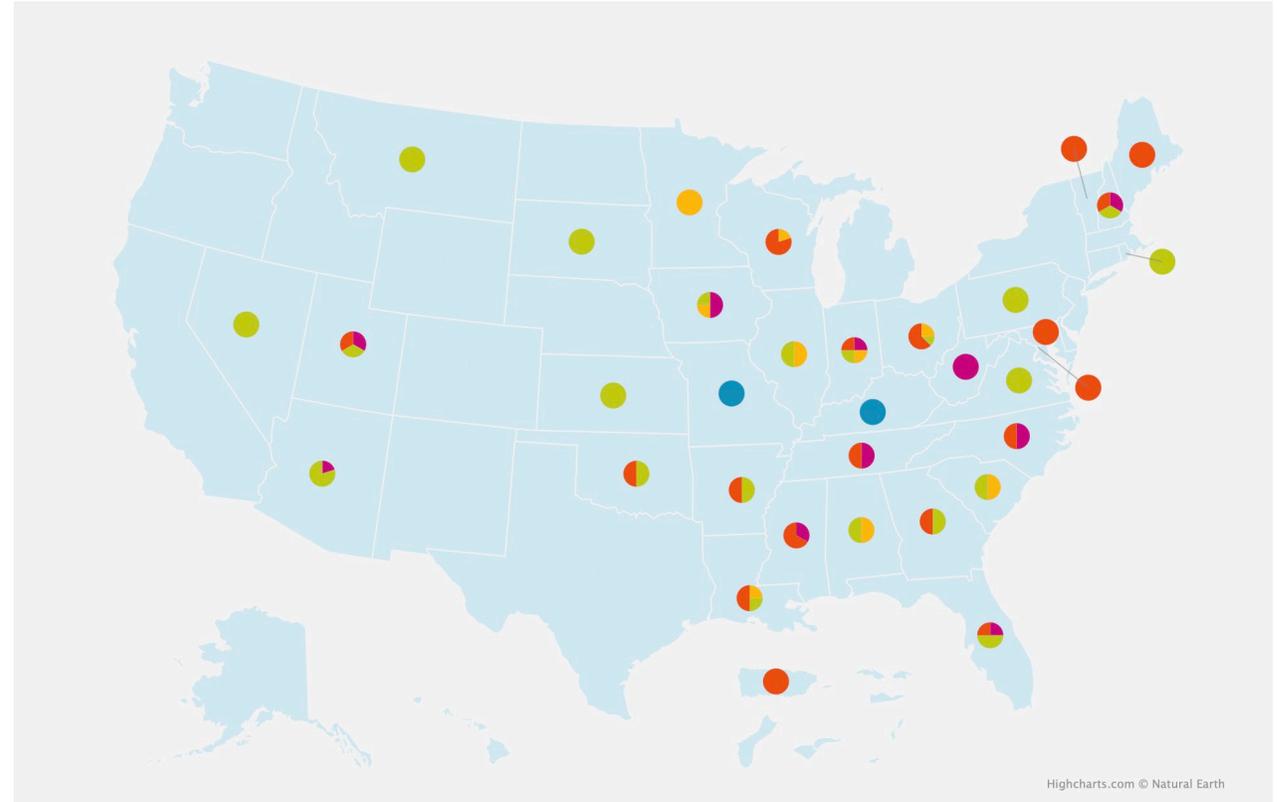
Oklahoma

South Carolina

Texas

Utah

Virginia





**1. No real expansion of choice for low-income families.**

**2. Diverts public funds to private schools.**

**3. Competition myth will simply divert funds from already underfunded schools.**

**4. Leaving behind special needs and those who need accommodations.**

**5. The poorest families will not benefit from tax expenditures.**

**6. Accountability issues.**



We hear about structurally racist policies and rules that have had profound impacts upon housing (such as racial segregation, redlining, and taxation), but these issues have also had a profound impact upon **school financing.**

The problems are interrelated.



Former Secretary of Education Betsy DeVos argued before a Senate Committee,

“The notion that spending more money is going to bring about different results is ill-placed and ill-advised.”



“A Study by Northwestern University economist C. Kirabo Jackson projected that by increasing per pupil spending by 22% during low-income students’ years in school, states could completely eliminate the achievement gap between children from affluent and economically disadvantaged homes.”



## Aggressively reshaping the benefits offered through these plans

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- ★ Impose restrictions to curtail dynastic benefit
- ★ Do not allow use for K through 12 education
- ★ Cap the amount of income that may accrue without tax.



## How can we use 529s as building blocks for inclusive asset-building and savings policy?

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- ★ Allow low initial contribution to start plan (e.g. \$10)
- ★ Make plans available through employers + payroll deduction
- ★ Introduce progressivity at the state level through aggressive implementation of savings match programs presently offered in some states for low to moderate-income families