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O'TOOLE

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Ideas to help small businesses and individuals maximize income while minimizing taxes.

2nd Quarter 2024

THE MANY BENEFITS OF A 529 PLAN

Boost a child's education with a tax-free college savings plan



This may be the best gift you can give a child each year, whether you're a parent, grandparent, aunt, uncle, or even a family friend:

Open a state-sponsored Section 529 College Savings Plan and make regular contributions.

These are the three main benefits of setting up a 529 Plan:

- 1. You're helping a student avoid future education loans and interest.** Your investment will help your designated beneficiary reduce or avoid their student loan burden, including helping reduce total student loan interest. This is a wonderful legacy for a loved one you're supporting.
- 2. You can contribute any amount.** Most plans require an initial contribution (\$25 in Maine) to establish an account. After that, you can set up regular payments, annual payments... your choice! Your contribution earns interest tax-free, growing over time.
 - **Contribution Bonus!** Some states offer matching grants. For example, Maine matches 30% on contributions, up to a \$300 bonus per year. Check here to see if your state matches contributions: <https://bit.ly/3XefeFN>
 - **Tax Bonus!** Some states offer a tax credit, or deduction, depending on your income. In Maine, for a married couple with income under \$200,000 — it's a \$1,000 deduction per beneficiary (\$3,000 if you contributed \$1,000 to three different beneficiaries).
 - **Gift Bonus!** Reminder, if you contribute more than the annual gift exclusion, \$18,000 for 2024, you'll need to report it on a gift tax return. Bonus: you can contribute this year up to five years' worth (\$90,000!) at once and use five years of the annual exclusion in this year. (You'll still need to file a gift tax return even though the gift is excludable.)

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2024 TAX SEASON (WITH EXTENDED DUE DATES)

A big THANK YOU for trusting us with your 2023 tax returns. We appreciate your business! We're still working through returns for Maine residents given later deadlines related to FEMA/winter storms — announced on Maine.gov (<https://bit.ly/3VyBORw>):

- **June 17, 2024**, for these counties: Androscoggin, Franklin, Kennebec, Oxford, Penobscot, Piscataquis, Somerset
- **July 15, 2024**, for these counties: Cumberland, Hancock, Knox, Lincoln, Sagadahoc, Waldo, Washington, York

These storm-related announcements did not extend due dates for other state returns or for residents of other states that also file in Maine. Visit these websites for details:

- Interior County Winter Storms (June 17th due date): <https://bit.ly/3VyC9dM>
- Coastal County Flooding (July 15th due date): <https://bit.ly/45eK430>

If you'd like to schedule an appointment with us, not related to your 2023 tax return, we can accommodate your schedule, especially after July 15. Thank you!

SUMMER 2024 OFFICE HOURS

Summer Fridays are back. This means we're closed every Friday July through Labor Day. However — clients come first! If Friday is the only day you can meet with us, just let us know and we'll schedule an appointment time that works for you.

Contact us for an appointment:

207-774-0882 or info@honeckotoole.com

Your Honeck O'Toole Team



3. Your recipient has options on how to use the funds.

As you'll see below under "Taking Distributions," 529 funds can be used for a variety of expenses... not just traditional college.

Maine's 529 Plan is called **NextGen 529** (www.nextgenforme.com). Here's how it works.

Setting Up an Account and Making Contributions

Anyone can set up a NextGen account — and it usually involves two players.

The first is the person who set-up the account and is the owner (that's you, if you set it up). When setting up an account, you should name a successor or contingent owner in case of your death or incapacity. Thought should go into choosing a successor owner, since they can distribute all the assets to themselves or change the beneficiary.

The second person is the beneficiary, the person who will receive distributions from the plan. It's possible to set up the account for yourself, too ... but most often, accounts are established by a parent or grandparent for the benefit of a child or grandchild.

Important: A 529 Plan may be a countable asset when applying for financial aid (The Free Application for Federal Student Aid, or FAFSA), depending on the account ownership.

- **Accounts owned by the FAFSA filing parent or dependent student are countable assets.** For the filing parent, a maximum of 5.64% of parental assets are counted in determining financial aid. For students, 3.29% up to 20% of assets may be countable in determining aid. The percentage varies depending on whether the student is a dependent or if they may have dependents themselves. *We note "FAFSA filing parent" since there are situations where the parents are not married. Only the filing parent's assets are included, not the assets of the Non-FAFSA filing parent.* For more information on special situations, visit this website: <https://studentaid.gov/apply-for-aid/fafsa/filling-out/parent-info>
- **Accounts owned by grandparents and anyone else are not countable assets in determining aid.** Also, under the new rules, qualified distributions to the beneficiary are no longer included as untaxable income for FAFSA. (They may be for the CSS Profile for private schools.) To see if your distributions for K-12 expenses are taxable in your state, or if there's a tax benefit, check out this webpage: <https://bit.ly/45fli1P>

When in doubt, ask us! We can certainly walk you through this.

Taking Distributions: Uses and What's Allowed

First, let's look at how a 529 Plan may be used by the beneficiary. It's not just for traditional college expenses!

- 1) K-12 Students:** Up to \$10,000 per student (per year) for tuition to attend public or private elementary and secondary (K-12) schools (not homeschooling.) This is only for tuition expense, other expenses such as books, computers, and tutoring are not eligible. (A few states do not consider K-12 expenses as qualifying educational costs and consider the distribution to be taxable income. Be sure to check your qualifications prior to withdrawing.)
- 2) Apprenticeship Programs:** If the beneficiary is part of a registered and certified program with the Secretary of Labor, they can take distributions for fees, books, supplies and equipment.
- 3) College (Including Vocational, Trade, and Technical Schools):**
 - a. Tuition
 - b. Books & Supplies
 - c. Room & Board (R&B): To qualify, the following criteria must be met:
 - i. Student is enrolled in eligible college program at least half-time or enrolled in a degree, certificate, or credentialed program.
 - ii. The R&B cost must not exceed the greater of:
 1. For students living in housing owned and operated by the school, the actual amount invoiced. (Meal plans are a qualified expense if they are included in your room and board.)
 2. The room and board allowance included in the cost of attendance (COA) as determined by the school for the academic period. (Be sure to keep receipts to document expenses!)
 - a. This includes not only rent, but also groceries and utilities up to the COA amount.
 - b. Students living with their parents: actual R&B payments should be made to the parents.
- 4) Student Loan Debt:** Up to \$10,000 can be used to pay toward student loan debt for the beneficiary or their sibling. The \$10,000 is a lifetime limit per student beneficiary. You do not need to change the beneficiary designation on the account to make a distribution to the beneficiary's sibling.

What to Do With Unspent 529 Plan Funds:

There are several reasons you may have unused funds left in a 529 Plan (i.e. the beneficiary received a scholarship or went to a state university versus private school). Here are your options for those unused 529 funds:

1) Withdraw the funds with tax consequences. When you take a distribution, you get back a piece of your original contribution and its earnings (dividends, interest, capital gains). Only the earnings are taxable, not the original contribution. Earnings are subject to a 10% penalty, unless the beneficiary: 1) received a scholarship, 2) went to a U.S. Military Service Academy, or 3) died or became disabled.

2) Change the beneficiary – no tax consequences. There are no tax consequences when changing the beneficiary to a qualified family member. And the IRS allows for quite the “family” as it includes not only spouse, children, and parents, but also siblings, aunts, uncles, cousins, and in-laws!

3) Roll over to a Roth IRA. New this year, you can transfer the unused funds to the beneficiary’s Roth IRA. If you’ve had the 529 Plan at least 15 years, you can transfer a total of \$35,000 per beneficiary to a Roth IRA. The transfer is subject to the same annual Roth IRA contributions limits: the lesser of earned income or \$7,000. So, it would take transfers over multiple years to reach the \$35,000 lifetime cap.

QUESTIONS ABOUT 529 PLANS

– account setup, contributions, or distributions – **call 207-774-0882** or **email info@honeckotoole.com.**

529A “ABLE” PLANS FOR THE DISABLED

A different kind of 529 Plan is the 529A ABLE Account. This is a tax-advantaged savings account you can establish and contribute to in support of an individual with disabilities... and the final burdens they may face. (It was established as ABLE through the Achieving a Better Life Experience Act of 2014.)

The account beneficiary is the account owner and the recipient of tax advantages. In short, earnings are not taxed for them.

As the account contributor, you’ll use post-tax dollars to fund the 529A Plan – so there aren’t Federal tax benefits for you. Some states do offer tax incentives; Maine does not. But the greater purpose is clear: you’re providing an amazing gift to someone who could truly use the help.

529A Plan (ABLE Account) Resources, including Maine’s ABLE ME Program:

<https://www.ablenrc.org/what-is-able/what-are-able-accounts/>

<https://www.finra.org/investors/investing/investment-accounts/able-accounts>

<https://www.ssa.gov/ssi/spotlights/spot-able.html>

<https://www.maine.gov/treasurer/ABLE-MAINE>

Questions about setting up a 529A Plan?

Call **207-774-0882** or email **info@honeckotoole.com.**

MEET NEW STAFF ACCOUNTANT DAPHROSE NAHIMANA

Please join us in welcoming Daphrose to our team! We’re delighted to have her on board. She earned a bachelor’s degree in health services management from the National Institute of Public Health (Burundi, Africa), and completed her ESOL Program (English for Speakers of Other Languages) as well as an Accounting Certificate Program at USM (Spring 2024). She interned with us last year and we asked her to join us starting this spring. Daphrose hails from Burundi, Africa, immigrated to the US in 2017, and was recently granted asylum. Her husband and children live in Kenya, and she said, “*Hopefully, they will join me soon.*” She enjoys working at Honeck O’Toole because, “*Its workplace culture combines professionalism, kindness, and empathy.*”



DISCLAIMER

Any accounting, business, or tax advice contained in this communication is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties. If desired, Honeck O’Toole would be pleased to perform the requisite research and provide you with a detailed written analysis. Such an engagement may be the subject of a separate engagement letter that would define the scope and limits of the desired consultation services.

CLIENT PROFILE

MANDY JOHNSON

Landscape Gardener Serving Greater Portland

"I love helping people create outdoor spaces where they can enjoy nature in their own backyard and wind down at home," said Mandy Johnson, experienced southern Maine gardener. And while maintenance of existing landscapes has been her business mainstay since it started in 2012 — pruning, weeding, planting, and more — every year she'll do a handful of designs for new and existing clients. She told us that design work is a fun and collaborative puzzle that she really enjoys, considering each site's conditions, matching plants and sometimes structural elements to those conditions, and pleasing the people who live there.



Mandy Johnson

A native environment is important to Mandy. She said, "The movement to notice native wild plants and honor them, as well as to rewild spaces, is gaining so much momentum. I'm grateful to work in this business at this time, when my interests line up with the direction many people would like to head in."

Mandy and her partner Peter have been having a great season. She told us, "I'm grateful to have so many long-haul and joyful relationships with so many people and places via the business. Some clients I have worked with for 3 generations (grandmother, mom, and daughter), others I have seen through many moves and big life milestones like their kids learning to drive and heading off to college."

If you'd like to explore Mandy's services, you can reach her at mandyjohnsonlandscapegardener@gmail.com and 207-615-9866. 📞

THE FLAG OF THE U.S. STATE OF MAINE FROM 1901 TO 1909



source & credit: Wikipedia

This was the first official flag to be used to represent the state other than its militia; it was later replaced by a more standard military-style flag in 1909.

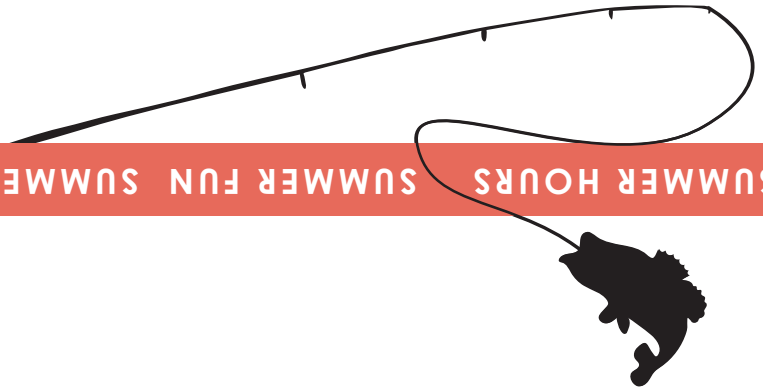
Adopted:

21 March 1901; 123 years ago

Design:

Green pine tree on a buff field with a blue star in the canton

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Call for Assistance Anytime! We welcome your questions about taxes, financial planning, college planning, making the most of QuickBooks, or anything else related to your money.

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