

# 529 to Roth IRA: Rollover Rules, Conversion Guide, and FAQs

**As of January 1, 2024, 529 plan account owners can roll over unused funds to a Roth IRA without incurring taxes or penalties, subject to certain limits.** This new option, introduced through Section 126 of the SECURE 2.0 Act, allows up to \$35,000 in lifetime rollovers to a Roth IRA owned by the 529 plan beneficiary.

Rollovers must follow annual Roth IRA contribution limits (\$7,000 for 2025, or \$8,000 if the beneficiary is 50 or older), and the 529 account must have been open for at least 15 years.

This is welcome news for families concerned about leftover 529 funds and adds flexibility to how education savings can be used. Here's what you need to know about the rollover rules and how to make the transfer.

## **What's changed?**

Before SECURE 2.0, 529 plan account owners or beneficiaries who wanted to withdraw funds for nonqualified education expenses would be forced to make a nonqualified withdrawal. The earnings portion of nonqualified withdrawals is subject to income tax and a 10% federal tax penalty.

With the new regulations, 529 plan account owners or beneficiaries can roll over 529 funds into a beneficiary-owned Roth IRA tax-free and penalty-free as of January 1, 2024, subject to the limitations described below. If you qualify, this can be a great way to help kick-start a beneficiary's retirement savings.

Some grey areas in the statute are still subject to different interpretations, and the 529 plan industry is awaiting further clarification and guidance. However, most 529 plans have begun processing rollover requests.

## **529 to Roth IRA annual limit**

The rollover amount from a 529 plan into a Roth IRA account is subject to the IRS's annual contribution limits. The annual Roth IRA contribution limit for 2024 and 2025 is \$7,000 (\$8,000 for people 50 and older).

Note that the beneficiary must have earned income equal to at least as much as the amount transferred in any year.

## **529 to Roth IRA lifetime limit**

There's also a \$35,000 lifetime limit per beneficiary for 529 plan rollover contributions to Roth IRAs. Remember, you can't transfer all \$35,000 at one time. You can only transfer up to the annual limit each year.

For example, if you have \$16,500 in your account, you could transfer \$7,000 for the 2024 tax year (you have until Tax Day 2025 to make a 2024 contribution), \$7,000 in 2025, and the remaining \$2,500 in 2026. Tax- and penalty-free transfers can only be made if you meet the below-mentioned requirements.

### **What rules apply to 529 to Roth IRA rollovers?**

Funds cannot be moved from a 529 plan into a Roth IRA without incurring penalties and taxes unless the account has existed for *at least 15 years*. Changing designated beneficiaries also will likely restart that 15-year clock.

Accountholders and beneficiaries cannot roll over any contributions or earnings on contributions made in the last five years. In other words, the money transferred must have been in the account for at least five years, and the amount can't exceed your balance from five years prior.

While Roth IRA contributions are subject to annual limits, when rolling over from a 529, they're not subject to the typical Roth IRA income limits. This means those with incomes exceeding Roth IRA income limits can contribute to a Roth IRA by rolling over unused funds from a 529 plan when they'd otherwise be ineligible to contribute.

### **State tax implications for 529 to Roth IRA rollovers**

Moving leftover 529 funds to a beneficiary's Roth IRA can be a great way to help them build their retirement savings. However, there may not be a reason to rush to do so yet. In addition to unclear guidance to 529 plan managers on rules for these transfers, some states may not treat these rollovers as a qualified expense for state income tax purposes.

If your state does not consider 529 to Roth IRA rollovers a qualified expense, consult the plan or your tax advisor to understand the implications for you.

Remember that you always have other options for leftover 529 funds, such as keeping them for graduate school, changing the beneficiary, and more.

### **529 to Roth IRA rollover: how to make the conversion**

#### **Step 1: Open a Roth IRA account**

If the beneficiary doesn't already have a Roth IRA account, open one. To proceed to step 2, you'll need the new account number and information about the IRA administrator.

Important to note: **You must set up the beneficiary listed on your 529 plan account as the owner of the Roth IRA account.**

#### **Step 2: Initiate a trustee-to-trustee rollover**

Check your 529 plan provider's website FAQs or call their customer support team for instructions on initiating a trustee-to-trustee rollover from your 529 to a Roth IRA. Most plans require you to complete a form for this transaction.

**For the rollover to be federal tax-free, it must be paid through a direct trustee-to-trustee transfer.** In other words, you cannot first withdraw the amount to be rolled over and then contribute that amount to

the Roth IRA. If you try to do this, you will end up with an unqualified withdrawal subject to tax and penalty. As always, check with your tax advisor before initiating such a transaction.

### **Tax reporting for your 529 to Roth IRA rollover**

For qualified transfers to a Roth IRA from a 529 plan that meet the above requirements, you will enter the rollover amount in Box 10, Roth IRA Contributions, of Form 5498. Do not enter it in Box 2, Rollover Contributions.

### **The bottom line**

529 plans have been a valuable financial tool to help families prepare for the cost of college. These new rules increase 529 plan flexibility, giving families another reason to save for college without worrying about a kid not attending college.

Though there are limits, it's a massive step in the right direction to encourage families to save with 529 plans.