

You Just Got a Refund Check from Your Child's College. Now What?

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Key Takeaways

- Deposit your school-issued refund in your child's 529 plan by July 15, 2020 to avoid taxation.
- Work closely with your 529 provider and advisor to ensure all necessary steps are taken.
- Keep records to demonstrate the proper process was followed.

With the outbreak of COVID-19, many colleges and universities have physically closed their campuses and switched to online classroom instruction. As a result of these changes, you or your child may have received a refund for this semester's tuition and room and board. While getting money back is a welcomed surprise, it also poses a potential tax risk if the funds originally came from a college savings 529 plan.

What is the Potential Tax Risk?

A 529 plan is primarily used to pay for qualified higher education expenses, including tuition, fees, books, supplies and equipment. According to IRS Publication 970, if a student receives a refund of qualified education expenses that were paid from a 529 plan, they can recontribute the money to the plan within 60 days after the date of the refund. If the amount isn't put back by the deadline, the refund may be taxable.

The good news is that you now have more time to plan and act. On April 10, 2020, the IRS extended the recontribution due date to July 15, 2020.

So, What Should You Do?

First and foremost, contact your 529 plan provider to find out their recontribution process. The process for redepositing money may vary from one 529 provider to another. Second, document the refund. If you're ever audited, the IRS will want to see proof of the refund. Therefore, make sure you save any bills, receipts, or other documentation with your tax records.

You can also take these additional steps to document the refund:

- Endorse the check by writing "Pay to the Order of" and the plan name below your signature
- Write the 529 account number on the check
- Include a note or letter with the check that explains the money is from a school-issued refund and is not a new contribution
- Keep a copy of the note as well as a front and back copy of the check in your files



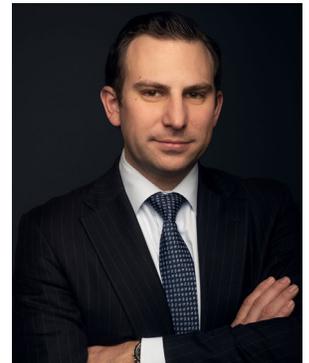
If the refund was issued electronically, you can still redeposit the money into the 529 plan to avoid taxation. Just make sure the amount you put back matches the refund you received. Your bank and 529 account statements can serve as proof of the transaction.

We're Here to Help

Many people are encountering unexpected financial issues due to COVID-19. You don't have to face them alone. We're here to answer your questions and help you put the proper plan in place for your circumstances. Please don't hesitate to contact us for assistance.

For additional insights and helpful planning tips, visit the thought leadership section of ceritypartners.com.

Paul is a Partner in the New York office and has more than ten years of industry experience. He specializes in company benefits, income tax, insurance, investments, retirement and estate planning. Through our Executive Financial Counseling practice, Paul provides comprehensive financial planning services to corporate executives and individuals.



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