**Understand the Key Differences in Missouri, Illinois, and Kansas When Advising Clients on 529 Plans**

 Most Missouri CPAs have clients subject to tax in neighboring states (e.g., eastern Missouri CPAs with clients subject to Illinois state tax or western Missouri CPAs with clients subject to Kansas state tax). All three states offer 529 college savings plans that provide state income tax savings as an encouragement for state residents to save for their children’s college costs. However, there are differences between the plans that Missouri CPAs should understand in order for their clients to receive the maximum tax savings. After reading this article, Missouri CPAs can properly advise their clients where to direct 529 contributions and how much state income tax savings will result. The following table summarizes 529 plans in Missouri, Illinois, and Kansas and some of the investment options in the three states.

[INSERT TABLE HERE]

The Basics of Investments in 529 Plans

The table contains the websites where one can find details on how to open a 529 account and contribute to a 529 plan in Missouri, Illinois, or Kansas. It is very simple and the initial contribution can be as small as $25. Each 529 account has one owner, and the owner names a beneficiary. The owner of the 529 account can change the beneficiary any time. Earnings on and withdrawals from the 529 account are tax free if used for the beneficiary’s tuition and fees, required books and supplies, and room and board at any qualified higher education institution in the United States (i.e., where students are eligible to receive federal financial aid)—including four-year colleges and universities, two-year colleges, vocational schools, technical schools, and trade schools.

Identifying Clients that Will Benefit from 529 Investments

 A client with children should consider a 529 contribution. If a CPA observes either the American opportunity or lifetime learning tax credit or the higher education tuition deduction on a client’s federal form 1040, but does not see a 529 contribution deduction on the client’s individual state income tax return, it is especially important to suggest the client consider the 529 investment. Note though, that a client’s federal adjusted gross income might be too high to qualify for any of these federal tax benefits. Hence, it is also good practice to ask if any dependents of the client have higher education expenses either currently or upcoming. It should be emphasized that none of these three states’ 529 plans have a minimum holding period. Hence, taxpayers in Missouri, Illinois, and Kansas can benefit from the 529-related state tax savings even for a student that is currently paying college costs or soon will.

Key Differences in the States Laws

 The highest Missouri tax rate is 6%. Missouri taxpayers gain the full 6% tax benefit on state taxable income (after 529 contributions) exceeding $9,000. The highest Kansas tax rate is 4.9%. The full 4.9% tax benefit is available to Kansas taxpayers if their state taxable income (after 529 contributions) exceeds $30,000 if married filing jointly or $15,000 if filing single. Illinois has a 5% flat income tax rate. So, Illinois taxpayers qualify for a 5% tax benefit if state taxable income (after 529 contributions) is greater than $0. Hence, after 529 contributions the maximum benefit is available to Missouri taxpayers with taxable income greater than $9,000, Kansas taxpayers with taxable income greater than $15,000 ($30,000 for a married couple), and Illinois taxpayers with any taxable income.

 In Missouri and Illinois, the number of beneficiaries (i.e., the number of 529 accounts) does not impact the tax savings potential. The laws of these states simply cap the maximum contribution eligible for an “above the line” deduction. In Missouri, the maximum tax benefit is $480 per person or $960 per married couple resulting from maximum deductible contributions totaling $8,000 for an individual or $16,000 for a married couple filing one combined tax return. In Illinois, the maximum contribution is $10,000 for an individual or $20,000 for a married couple filing jointly resulting in a maximum tax savings totaling $500 for an individual or $1,000 for a married couple. In Kansas, the tax law caps the maximum contribution on a per beneficiary basis. Kansas taxpayers qualify for tax deductions for contributions up to $3,000 *per beneficiary* for an individual or $6,000 *per beneficiary* for a married couple filing jointly. The former contribution results in net tax savings totaling $147 and the latter in $294. Hence, Kansas taxpayers can aggregate much larger tax benefits by having several different beneficiaries/accounts.

Investment Options

 There are many investment options for each of the state’s 529 plans. Each state offers a minimal risk option featuring money market investment securities. This is an excellent investment choice for beneficiaries that are either near college age or in college. If the beneficiary will not be in college for several years, most clients will seek investment alternatives that feature higher return potential. Each of the three states has potentially higher earning bond funds, blended funds that feature bonds and stocks, and even all stock funds. If the client wants the portfolio to become decreasingly risky as the beneficiary nears college age, each of the states has age-based blended portfolios that rebalance the money market/bond/stock mix periodically based on the beneficiary’s age.

 Please note that Illinois taxpayers *must* invest in the Illinois 529 Plan to qualify for Illinois state tax benefits. This is not the case for the Missouri and Kansas taxpayers. They can contribute to either their state’s or any other state’s 529 Plans. An especially popular choice for brokers of residents in Missouri and Kansas is the Virginia CollegeAmerica 529 plan. This plan is by far the most popular adviser-sold 529 plan in the nation. The Virginia plan earned a 4.5 (out of 5) “caps” rating on the website “savingforcollege.com”. The following state plans actually received a higher rating (5 “caps”) in the mid-2014 ratings for direct-sold plans to nonresidents: the California ScholarShare College Savings plan; the Maine NextGen College Investing plan; the Nebraska Education Savings plan; the New York 529 College Savings plan, the Ohio CollegeAdvantage 529 Savings plan, the Utah Educational Savings plan; and the Wisconsin EdVest plan.

 If the CPA learns that an Illinois resident is using a broker-sold 529 plan, the CPA should make the client aware that state income tax savings occur only if the contribution is to one of the Illinois 529 plans. Direct investments into the Illinois plan are made by accessing “www.brightstartsavings.com.” Illinois also has an adviser-sold version of its Bright Start 529 plan and has a second advisor-sold program called the Bright Directions 529 plan.

Conclusion

 Missouri CPAs often have clients that pay taxes in Illinois or Kansas. Hence, Missouri CPAs must be familiar with key differences in the tax laws of these states. In this article, we guide CPAs through key differences in these states related to 529 college savings plans and the related tax consequences. Of course, the first difference is the tax rate in the respective states and the taxable income level at which the highest tax rate becomes effective in the state. Another difference is how the maximum deduction for 529 plan contributions is determined. In Missouri and Illinois, the taxpayers have a maximum contribution qualifying for a state deduction annually. Kansas places the maximum limit on the annual contribution to each beneficiary account. Hence, Kansas taxpayers can potentially garner greater state tax benefits but to do so requires accounts for multiple beneficiaries. We also summarize differences in investment options in Illinois versus Missouri and Kansas. Illinois taxpayers must invest in Illinois 529 plans to gain the state tax advantages. Missouri and Kansas taxpayers can get state tax benefits for investments into any state’s 529 plan. To this end, we identify several highly-rated state plans.

|  |
| --- |
| **Summary of Illinois, Kansas, and Missouri 529 College Savings Plans** |
|  | **Illinois** | **Kansas** | **Missouri** |
| **Name**  | Bright Start | Learning Quest | MOST |
| **Web site** | brightstartsavings.com | learningquest.com | missourimost.com |
| **Maximum state deductible annual contribution** | $10,000; $20,000 if married filing jointly | $3,000 per beneficiary; $6,000 per beneficiary if married filing joint | $8,000; $16,000 if married filing combined  |
| **Maximum state income tax savings** | $500;$1,000 if married filing jointly | $147 per beneficiary;$294 per beneficiary if married filing joint | $480;$960 if married filing combined |
| **Where contribution can be made** | *Only* to an Illinois 529 plan | To any state’s 529 plan | To any state’s 529 plan |
| **Lowest risk investment option** | *Money Market Portfolio* | *Money Market Portfolio* | *Vanguard Interest Accumulation Portfolio* |
| **Conservative (i.e., some risk) fund invested in bonds**  | *Index Fixed Income Portfolio* | *Total Bond Market Index Portfolio* | *Vanguard Conservative Income Portfolio* |
| **Conservative (i.e., some risk) age-based fund invested in stocks and bonds**  | *Index Age-Based Portfolio*  | *Conservative Track: Age Based*  | *Conservative Age-Based Option* |