

The Weekly Scenario: 529-ABLE Programs

November 19, 2021

By Steven E. Shane

The 529-ABLE programs have been available nationwide for about 5 years now. With Maryland ABLE, you can contribute up to \$15,000 per year (or more if the beneficiary is working) for a wide range of qualified disability expenses. The ABLE to Work Act allows beneficiaries who are employed to contribute an amount equal to their current year's gross income --up to a maximum of \$12,760 in 2021 each year to their ABLE accounts in addition to the annual standard contribution limit of \$15,000.

The account's growth is tax-free, and contributions could qualify for an income deduction (for Maryland state income taxes).

Contributions can be made up to a maximum account value of \$500,000 over the life of the account. Other federal means-tested benefits such as Medicaid, housing and food assistance are not impacted by the balance of the ABLE account. Similarly, ABLE account balances are disregarded for the purpose of determining eligibility to receive, or the amount of, any assistance or benefits from Maryland means-tested programs.

Before ABLE accounts, the only way families could save for the future of a disabled child without losing access to SSI and Medicaid benefits was with a special needs trust. That generally involves lawyer's fees and other costs. While the ABLE isn't a substitute for a special needs trust, it is a good solution to improve the life of someone with a disability and save some on income taxes.

The account works like a 529 college savings account—earnings and withdrawals for qualified expenses are federal and state tax free. 529-ABLEs can be used to save for medical and educational needs, job training, and housing.

What's tricky is the basic rules for the accounts--set by Congress--are the same, but important details vary among plans.

- All ABLEs are for individuals who were disabled before age 26;
- An individual can open only one account;
- The maximum annual contribution is tied to the federal gift tax exclusion amount which is currently \$15,000.

What's different? Things like investment choices, fees, and benefits for in-state residents.

You must do a little digging on each state plan's web site and the plan disclosure statements to compare ABLEs. Before you open an account in a state that's not your home state, check to see if your state will be offering tax incentives for contributions.

As always, if you have any questions or would like to learn more, please contact Steve Shane at sshane@offitkurman.com or [301.575.0313](tel:301.575.0313).

