



## Pennsylvania Income Tax Deduction for 529 Plan Contributions

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As I was preparing to file my 2011 income tax returns recently, I was reminded of an important income tax benefit provided by the Commonwealth of Pennsylvania to taxpayers that make contributions to Internal Revenue Code Section 529 Qualified Tuition Programs.

In the simplest of terms, a 529 Plan is a tax-advantaged investment vehicle designed to encourage saving for the future higher education expenses of a designated beneficiary. A beneficiary of a 529 Plan can be your child, grandchild, niece, nephew, godchild, etc. and each state has its own 529 Plan.

In 2011, Pennsylvania allows a maximum dollar-for-dollar deduction of \$13,000 per beneficiary, per taxpayer for contributions made to all 529 Plans (not just contributions made to a Pennsylvania 529 Plan). In addition, a taxpayer and his or her spouse may each deduct \$13,000 per beneficiary, which would enable a married couple to contribute up to \$26,000 to a beneficiary's 529 Plan for his or her college education and receive a Pennsylvania income tax deduction. However, the deduction is not available for a rollover of an account from one plan into another plan or if the beneficiary of a 529 Plan account was changed during the year.

For all Pennsylvania taxpayers that made contributions to 529 Plans in 2011, make sure to take advantage of the income tax deduction on your Pennsylvania income tax return by completing and filing Schedule O with your tax return. For 2011, the amount deductible is capped at the lesser of \$13,000 or the taxpayer's total Pennsylvania Taxable Income. And those taxpayers making periodic contributions to 529 Plans in the future should keep this deduction in mind when they file their Pennsylvania income tax returns.

We encourage you to contact your tax advisor or a member of our Firm's Tax, Estate Planning and Administration Practice Groups if you have any questions regarding 529 gifting strategies and the tax benefits inherent in such strategies. We look forward to hearing from you.

And don't forget that the income tax filing deadline this year is April 17, 2012, because April 15th is a Sunday, and April 16th is Emancipation Day in Washington, D.C. As a result, the tax deadline for all 2011 income tax returns is April 17, 2012.

**About the Author:** Mr. Fernandez focuses his practice on structuring and implementing estate and tax planning strategies for individuals and closely held businesses. His work includes assisting clients with all of the legal and tax aspects of the administration of decedent's estates. If you have any questions, please contact Mr. Fernandez ([afernandez@wispearl.com](mailto:afernandez@wispearl.com)) or one of the other attorneys in Wisler Pearlstine's Tax, Estate Planning and Administration Practice Groups.

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