HB Wealth

Should I Rollover 529 Funds to a Roth IRA?

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At a Glance

A qualifying rollover can move unused 529 assets to the beneficiary's Roth IRA without federal income tax or the additional 10% tax. The opportunity is valuable, but the account age, contribution age, annual limit, compensation, lifetime limit, and state-tax rules all matter. Several practical questions remain unresolved by the IRS.

Beginning in 2024, families gained another option for unused 529 plan funds: qualifying distributions can be transferred directly to a Roth IRA for the 529 plan's designated beneficiary without federal income tax or the 10% additional tax that generally applies to nonqualified 529 distributions. For families with education savings left over, this could create an opportunity to put those funds toward the beneficiary's retirement savings, but there are important requirements and limitations to consider.

Although the rollover provision has now been in effect for several years, the IRS has not issued comprehensive guidance resolving how the 15-year and five-year requirements apply in every circumstance. Current 529-plan and financial-industry materials continue to identify open questions, particularly after beneficiary or account changes.

What Are the Requirements for a 529-to-Roth IRA Rollover?

- **Direct Transfer:** The distribution must be made as a direct trustee-to-trustee transfer from the 529 plan to the Roth IRA. The Path2College rollover form, for example, directs the funds to an existing Roth IRA established for the beneficiary and recommends consulting the receiving Roth IRA provider regarding any additional requirements. Because procedures vary by 529 plan and

Roth IRA custodian, you should confirm the requirements of both institutions before initiating the rollover.

- **Roth IRA owner is the same as the 529 beneficiary:** The owner of the Roth IRA (or beneficiary in the case of a custodial account) must be the designated beneficiary of the 529 plan. This requirement is generally understood.
- **529 plan maintained for 15+ years:** The 529 plan must have been maintained for at least 15 years. Unfortunately, this remains one of the biggest areas of uncertainty. The IRS has not clarified how beneficiary changes, account-owner changes, plan-to-plan rollovers, or other account changes affect that period.
- **Funds in a 529 plan 5+ years:** The rollover cannot include contributions made during the five-year period preceding the rollover or earnings attributable to those contributions. The practical challenge is identifying and supporting the eligible amount when the account has a complex contribution, withdrawal, transfer, or rollover history.
- **Annual IRA contribution limit.** The rollover counts toward the beneficiary's annual limit for combined traditional IRA and Roth IRA contributions. Other IRA contributions made for the beneficiary during the year reduce the amount available for a 529-to-Roth rollover. The Roth IRA contribution limit is the lesser of the Roth IRA owner's earned income or $7,500 ($8,600 if age 50+) for 2026. Note that while you must generally fall below a certain income level to contribute to a Roth IRA, the income limitation does not apply to qualifying 529 plan distributions to a Roth IRA.
- **$35,000 lifetime limit.** Qualifying 529-to-Roth IRA rollovers for a designated beneficiary may not exceed $35,000 in the aggregate across all 529 plans.

What Questions About 529-to-Roth IRA Rollovers Remain Unresolved?

Although the 529-to-Roth IRA rollover provision has been available since 2024, several questions about how the rules apply remain unresolved. In particular, the IRS has not clarified whether a change in account owner or a rollover from one state's 529 plan to another affects the 15-year requirement. A change in beneficiary raises another question, and although some providers and practitioners take a

conservative approach by treating the change as a restart of the 15-year period, the IRS has not confirmed that interpretation.

There may be a stronger basis for concluding that the 15-year requirement has been satisfied when the same beneficiary has continuously been associated with the 529 funds for at least 15 years, even if the account owner or state 529 program has changed. However, this remains an interpretation rather than settled IRS guidance. The specific account history, available records, plan procedures, and guidance received from the taxpayer's CPA or another tax advisor should be considered before proceeding.

The five-year rule presents a similar documentation issue. The rule excludes contributions made during the applicable five-year period and the earnings attributable to those contributions, but determining the eligible amount can become more complicated when an older account has a history of contributions, distributions, internal transfers, or plan-to-plan rollovers. Because the taxpayer is ultimately responsible for the tax treatment of the rollover, we generally take a cautious approach when the eligible amount cannot be clearly substantiated, while recognizing that the final determination should reflect the client's circumstances and guidance from their CPA or another tax advisor.

Practical takeaway

A 529 administrator's willingness to process a rollover does not, by itself, establish that every federal or state tax requirement has been satisfied. Keep account-opening records, contribution history, prior rollover documentation, and evidence of the beneficiary's compensation.

State Tax Considerations

Although a qualifying 529 plan distribution to a Roth IRA may be excluded from income for federal tax purposes, state tax treatment varies. Some states do not fully conform to the federal treatment of 529-to-Roth IRA rollovers, and a rollover may result in state income tax, recapture of a previously claimed state tax deduction or credit, or other state-level taxes or penalties.

Based on the most recently available state-by-state information, 30 states conform to the federal tax treatment of qualifying 529-to-Roth IRA rollovers, while another nine states do not impose a state income

tax. Other states may require the recapture of previously received 529 tax benefits, impose state tax or penalties, or have not yet clarified their treatment. Because these rules continue to evolve, taxpayers should confirm their state's treatment before completing a rollover.

Other Uses for Unused 529 Funds

Depending on the circumstances, several alternatives may be available, including leaving the funds invested for future education, changing the beneficiary to an eligible family member, using funds for other qualified education expenses, or taking a non-qualified distribution. The relative tax and planning consequences should be evaluated before acting. A Roth IRA rollover is only one option for unused 529 plans. For additional considerations, explore this blog.

Is a 529-to-Roth IRA Rollover Right for You?

A 529-to-Roth IRA rollover can offer another planning option when education savings no longer serve their original purpose. Whether it makes sense depends on the beneficiary's circumstances, the history of the 529 account, and the potential federal and state tax implications. Before moving forward, consider discussing the opportunity with your wealth advisor and tax professional to determine how it fits within your broader financial plan.

If you have questions or would like to discuss further, please reach out to your advisory team, call 404.264.1400, or request a consultation.

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