

PLYMOUTH INSTITUTE FOR FREE ENTERPRISE

MORE FLEXIBLE 529 SAVINGS ACCOUNTS

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TOPLINE: The One Big Beautiful Bill (OBBB) gives families more flexibility in taking tax-free withdrawals from 529 savings plans for K-12 expenses, also allowing distributions for expenses related to obtaining professional licenses and credentials.

BACKGROUND: Congress has established various “tax-advantaged” savings accounts meant to encourage Americans to save and invest. That includes 529 savings plans, which are intended for certain education expenses. Without such “tax-advantaged” savings accounts, the U.S. income tax system would *penalize* saving and investment. When workers earn money and spend it immediately, they generally owe federal income tax only on their salary. However, if they save and invest their earnings outside of tax-advantaged accounts, they face additional tax on any investment gains.

529 plans are like Roth IRAs in that there is no federal tax advantage on amounts contributed to the accounts, but qualifying gains in 529 accounts are tax free. Therefore, earned income that is invested in 529 plans for qualifying educational spending faces comparable taxes to earned income that is immediately spent. Distributions can be taken tax-free from 529 accounts for most higher education expenses (including fees, room and board, and books) at institutions [eligible](#) for federal student aid. For K-12 education, distributions were (before OBBB) [limited](#) to \$10,000 per child per year and were limited to tuition only.

What OBBB Did:

- [Doubled](#) the limit on tax-free distributions from 529 plans for K-12 expenses from \$10,000 per child per year to \$20,000 per child per year.
- [Allowed](#) tax-free distributions for K-12 to be used for books, tutoring, curriculum, online educational materials, testing fees, and other expenses beyond tuition.
- [Allowed](#) distributions for non-degree training, credentials, and licensing regardless of an institution's eligibility for federal student aid.

Why It Matters?

- According to CSPN, about [17 million](#) Americans use 529 plans to build wealth and avoid harmful secondary layers of taxes on income saved for education. They should be free to choose how to use the money they set aside for education without being pushed into particular kinds of programs like four-year colleges.

Where Can I Find the Changes? OBBB Section [70413-70414](#); [26 U.S.C. § 529\(e\),\(f\)](#).

BOTTOMLINE: Giving Americans more control over their own money is generally a good move. Families will make better educational choices than the government.

