3 new perks for ABLE accounts

Beginning in 2018, the Tax Cuts and Jobs Act (TCJA) gives a boost to tax-advantaged accounts for disabled individuals.

Alert: The TCJA changes apply to accounts authorized by the Achieving a Better Life Experience Act (ABLE) Act. These accounts are available through state-run programs.

ABLE accounts resemble Section 529 accounts used for higher education. There's no current tax on the earnings within the account and distributions for qualified expenses, such as payments for housing, education and transportation, that are tax free. These new accounts are restricted to individuals who experienced the onset of a significant disability before age 26.

Contributions may be made by virtually anyone. But the annual limit for contributions from all sources is the same as the annual gift tax exclusion (indexed to $15,000 for 2018). The total limit on contributions to an ABLE account is subject to the state limit for Section 529 accounts, with certain modifications. In many states, the overall limit exceeds $300,000.

The TCJA includes these three important changes for ABLE accounts.

1. An additional contribution above the gift tax exclusion amount may be made by a designated beneficiary who meets certain requirements. The extra contribution is limited to the lesser of the designated beneficiary's annual income or an amount equal to the poverty line of a single person.

2. Contributions to an ABLE account by a designated beneficiary are eligible for the retirement savings credit.

3. Distributions from a 529 can be rolled over tax free to an ABLE account if the rollover is completed within 60 days.

Tip: As with most TCJA provisions for individuals, these changes are scheduled to sunset after 2025.

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