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Balance *sheet*

ABLE Accounts

By Timothy J. Gephart, CPA

For tax years after December 31, 2014, tax law allows states to create "Achieving a Better Life Expectancy" (ABLE) accounts. These accounts allow families or individuals the chance to save and accumulate earnings tax free for federal purposes to support and pay qualified expenses for those with disabilities. There is no tax benefit to those making the contribution; the principal grows tax-exempt for the beneficiary. Qualified expenses include education, housing, transportation, employment support, health, prevention, wellness costs, assistive technology, personal support services, and other expenses. If the money is used for nonqualified expenses, then it is subject to tax plus a 10% penalty on the earnings.

Each disabled person is limited to one ABLE account and the total allowed contributions to each ABLE account is the annual gift tax exclusion amount ($14,000 for 2016 adjusted annually for inflation). Aggregated contributions are subject to the limit for higher education related Section 529 plans.

Eligible individuals must be blind or severally disabled, and must have become so before the age of 26, based on marked and severe functional limitation or receipt of benefits under the Supplemental Security Income (SSI) or Social Disability Insurance (DI) programs. An individual does not need to be receiving benefits under those programs; nor does the ownership of an account qualify someone for benefits under those programs.

ABLE accounts have no impact on Medicaid, but, in certain cases, ABLE accounts that have large balances can affect the housing allowance allowed under the SSI program. An ABLE account can phase out that allowance if it is between $100,000 and $102,000 and suspend the SSI housing allowance if the balance is over $102,000.

Contributions to an ABLE account by a parent or grandparent of a designated beneficiary are protected from bankruptcy so long as made 365 days prior to the bankruptcy filing. If a beneficiary of an ABLE account dies, the balance transfers to the estate of the beneficiary and the earnings become taxable but not subject to the penalty.

If an ABLE account makes sense for you and you have any questions, please contact us to discuss further.