IRS Issues Final Rules For ABLE Accounts

by Michelle Diament | October 12, 2020

Disability Scoop

Federal officials are firming up rules for a relatively new type of account that allows people with disabilities to save money without jeopardizing their government benefits.

The Internal Revenue Service issued final regulations this month spelling out details about how ABLE accounts should operate.

The accounts, which were established by the 2014 ABLE Act, allow individuals with disabilities to accrue up to $100,000 without risking eligibility for Social Security and other government benefits. Medicaid can be retained no matter how much money is saved in the accounts.

The rules released this month stem from when the accounts were originally created as well as tweaks to the law that came in 2017 tax-cut legislation. Many of the changes have already been in effect, but the IRS said the final regulations clarify specifics and address comments the agency received in response to previous proposals about how the law would be applied.

Annual deposits to ABLE accounts are capped at the value of the gift tax exclusion for any given year, currently $15,000 annually.

However, under the final rules, people with disabilities who are employed can deposit their earnings in ABLE accounts, above and beyond the existing contribution cap for the year. These individuals can save whatever money they earn in their ABLE account up to the value of the poverty line in the state where they live.

The IRS said that workers with disabilities who have ABLE accounts can also qualify for a Saver's Credit, which can reduce their federal tax bill.

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Separately, money saved in a traditional 529 college savings plan for an individual with a disability or a family member can be rolled over into an ABLE account up to the maximum annual contribution limit. The rules indicate that this option is available until Jan. 1, 2026.

The regulations also offer guidance on the record-keeping and reporting requirements of ABLE programs as well as other specifics about the mechanics of the accounts.

ABLE accounts are open to people with disabilities that onset prior to age 26. Money saved in the accounts can be used for education, housing, transportation, employment training and support, assistive technology, personal support services and other "qualified disability expenses."

Currently, 42 states and Washington, D.C. have active ABLE programs, many of which are open to people with disabilities nationwide, according to the ABLE National Resource Center.

As of June, data from ISS Market Intelligence shows that there are nearly 71,000 ABLE accounts open nationally with $469.4 million in assets.