

March 2015

---



## **New Tax-Favored Savings Accounts for Disabled Individuals**

**Sandy Dorsett, Senior Manager**  
sdorsett@dmlo.com

The new *Achieving a Better Life Experience Act of 2014* (ABLE) was also passed by Congress at the end of last year and signed into law by the president. It allows states to establish tax-favored accounts to help individuals with disabilities accumulate money to pay for qualified expenses. The accounts are similar to state-run Section 529 college tuition savings accounts.

Each year, up to \$14,000 (adjusted annually for inflation) can be contributed to an ABLE account set up for a specific disabled beneficiary. Anybody can contribute, including relatives and friends.

Contributions are not deductible. The tax advantage comes from the fact that ABLE account earnings are allowed to build up free of any federal income tax liability. Then tax-free withdrawals can be taken to cover the account beneficiary's qualified expenses, which include expenditures for education, housing, transportation, employment training and support, assistive technology, personal support services, health and wellness, financial management and administrative services, legal fees, expenses for oversight and monitoring, and funeral and burial expenses.

Upon the disabled individual's death, any amount remaining in the ABLE account goes to his or her estate or designated beneficiary, and any accumulated earnings are taxable.

### **ABLE Accounts vs. Special Needs Trusts**

The National Disability Institute, a not-for-profit organization, estimates that 5.8 million individuals and their families might be able to benefit from an ABLE account. The institute described how an ABLE account differs from a special needs trust or pooled trust.

*"An ABLE Account will provide more choice and control for the beneficiary and family. Cost of establishing an account will be considerably less than either a Special Needs Trust or Pooled Income Trust. With an ABLE account, account owners will have the ability to control their funds and, if circumstances change, still have other options available to them. Determining which option is the most appropriate will depend upon individual circumstances. For many families, the ABLE account will be a significant and viable option in addition to, rather than instead of, a Trust program."*