529's, ABLE Accounts, and HSA accounts- New Proposals

Quick-Take: The recent House Ways and Means budget proposal would expand some of the benefits associated with 529 accounts, ABLE accounts, and health savings accounts.

Background: The recently released House Ways and Means Committee's draft text of the 2026 budget bill contains some possible changes for ABLE accounts, 529 accounts, and Health Savings accounts (HSA.)

ABLE Accounts: The bill would make permanent provisions that affect the Achieving a Better Life Experience (ABLE) accounts that are otherwise set to expire at the end of 2025. The annual contribution to an ABLE account is based on the federal annual gift tax exclusion limit. Disabled individuals who are employed could contribute an additional amount to their ABLE account. This additional contribution could exceed either (i) the prior year's federal poverty level for a one-person household, or (ii) the beneficiary's yearly compensation. The disabled individual could also make a qualified contribution to their ABLE account which would qualify for a nonrefundable Saver's Credit up to $1,000.

529 Accounts: Distributions from a 529 account for *qualified higher education expenses* are tax exempt. The bill proposes to expand the term *qualified higher education expense* to include the following expenses incurred for elementary, secondary, and home schooling: (i) tuition; (ii) curriculum and curricular materials; (iii) books or other instructional materials; (iv) online education materials; (v) tuition for tutoring or educational classes outside of the home; (vi) fees for a nationally standardized achievement test or placement examination for feeds for a college admission; (vii) fees for dual enrollment in an institution of higher education; and (viii) educational therapies for students with disabilities provided by an accredited practitioner.

In addition, post-secondary credentialling expenses such as books, fees, tuition, supplies, and equipment required for enrollment or attendance would be treated as *qualified higher education expenses.*

HSA Accounts: The bill proposes to expand the coverage and use of health savings accounts (HSA) in several ways.

- Individuals with high-deductible health plans could enroll in direct primary care arrangements and remain HSA eligible, but with limits on distributions for these services.
- The definition of a *high-deductible health plan* would be expanded to allow bronze and catastrophic health insurance.
- Discounted or free health care offered at an employer's worksite would not disqualify an individual from HSA coverage.
- The definition of *qualified medical expenses* would be expanded to include certain amounts paid for physical activity and fitness, up to $500 per taxable year for a single filer and $1,000 for joint return or head of household filers.
- Spouses would be allowed to make catch-up contributions to the same HSA when both individuals attained the age of 55 or older.
- Employers could allow the rollover of a health reimbursement arrangement or a flexible spending account (FSA) to an HSA as a qualified HSA contribution upon establishing coverage under a *high-deductible health plan*.
- Some medical expenses incurred within 60 days of establishing an HSA could be treated as qualified medical expenses.
- Coverage would be expanded to provide that an individual is HSA eligible even if the individual's spouse is enrolled in a flexible spending arrangement.
- Increased HSA contributions of up to $4,300 would be allowed for individuals with single coverage if their modified adjusted gross income (MAGI) is less than $75,000, or $8,555 for family coverage if their MAGI is less than $150,000. These dollar amounts would be indexed to inflation.

Aggregation Rule: Under current law, some employers cannot take an income tax deduction for compensation that exceeds $1 million per year paid to some employees. The bill proposes to add aggregation rules to IRC 162(m) for the purpose of the deduction limit related to compensation to specified employees of a publicly held corporation that is a member of a 'controlled group.' This expansion would expand the group where the employer's tax deduction was denied.

MAGA Accounts: Under the proposal, a new savings account approach is created, called the MAGA account (what else would be expect from a Republican controlled Congress!) The bill would permit an account to be opened for a child under the age 8. The account could be opened at a bank or other financial institution. The contribution to the MAGA account would be limited to $5,000 a year, indexed for inflation. Distributions from the MAGA account would pretty much be denied until the child was age 18, when limited access to the account would be permitted, with all restrictions on access to the account dropped when the child attains age 25. Access to the MAGA account would be limited for qualified purposes, such expenses for higher education, training, small business loans, or first-time home purchases. The earnings from the MAGA account would be taxed at long-term capital gains rates if the funds are used for qualified purposes. Any distributions from the MAGA account used for nonqualified purposes would be taxed at ordinary income rates.

Conclusion: These are only proposals, and even if they make their way through the House, they will then be subject to reconciliation in the Senate, so it is anyone's guess whether they make it into the final One Big Beautiful Bill and become law.

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