The Achieving a Better Life Experience (ABLE) Act

* 1. **What is the ABLE Act? Who is eligible for an ABLE account?**

The Achieving a Better Life Experience (ABLE) Act was included within the Tax Increase Prevention Act of 2014.[[1]](#footnote-1) The ABLE Act introduces a new type of tax-advantaged savings account that is specifically designed to address some of the challenges to savings that disabled individuals have faced in recent years.

Under the previously existing rules, disabled individuals were often discouraged from accumulating assets to meet future expenses because, absent the use of certain trust vehicles, the individual would be disqualified from receiving Social Security and Medicaid benefits if the individual accumulated assets worth more than $2,000.

The ABLE Act modifies these rules to allow individuals to accumulate up to $100,000 in savings accounts called “ABLE accounts” without becoming disqualified from receiving Social Security benefits (above and beyond the traditional $2,000 resource limit, so that a total of $102,000 can be accumulated without risk of disqualification). Medicaid benefits will not be impacted regardless of how much the individual deposits into the ABLE account.[[2]](#footnote-2)

In order to qualify as an ABLE account beneficiary, the individual must have been diagnosed with a disability that causes severe limitations before that individual reaches age 26. Individuals who are currently receiving Social Security disability benefits also qualify. Regardless, eligibility for Social Security benefits is not a requirement for establishing an ABLE account—a severe, diagnosed disability is sufficient.[[3]](#footnote-3)

* 1. **What are the contribution rules that apply to ABLE accounts?**

ABLE accounts are modeled after IRC Section 529 college savings plans, so that after-tax funds are contributed to the account, but those funds are permitted to grow on a tax-free basis. Distributions from the account are not taxed when received if the distribution is used to pay for a qualified expense (see Q 368.03). Currently, the annual contribution limit is based upon the annual gift tax exclusion amount ($14,000 in 2015) and will be adjusted annually for inflation.[[4]](#footnote-4)

Any individual may make contributions to an ABLE account, whether or not that person is a disabled individual who is eligible to be an ABLE account beneficiary

(see Q 368.01). Contributions themselves, however, are not tax deductible—as discussed above, all contributions are made on an after-tax basis.

* 1. **What distribution requirements apply to ABLE accounts?**

Much like a traditional IRC Section 529 college savings plan, ABLE account distributions must be used to fund certain specified expenses of the disabled beneficiary or will become subject to a ten percent penalty tax. In addition to the ten percent penalty, any distributed earnings are taxed at the individual’s normal income tax rate if the distribution is not used for qualified expenses (see below).[[5]](#footnote-5)

The range of qualified expenses is broad, and includes “expenses related to the individual’s disability,” such as expenses for health care, housing, transportation, job training, assistive technology, personal support, financial management, legal fees and related services and expenses.[[6]](#footnote-6)

Individuals are generally limited to establishing only one ABLE account. Amounts initially contributed to an ABLE account can be rolled over into another ABLE account established either for the same beneficiary, or for a sibling of that beneficiary who also meets the eligibility requirements discussed in Q 368.01.[[7]](#footnote-7)

1. H.R. 647. [↑](#footnote-ref-1)
2. H.R. 647, Sec. 103. [↑](#footnote-ref-2)
3. See *Summary of H.R. 647,* available at: <https://rules.house.gov/sites/republicans.rules.house.gov/files/113-2/PDF/113-HR647-SxS.pdf> (last accessed January 7, 2015). [↑](#footnote-ref-3)
4. See *Summary of H.R. 647,* available at: <https://rules.house.gov/sites/republicans.rules.house.gov/files/113-2/PDF/113-HR647-SxS.pdf> (last accessed January 7, 2015). [↑](#footnote-ref-4)
5. H.R. 647, Sec. 102. [↑](#footnote-ref-5)
6. H.R. 647, Sec. 102. [↑](#footnote-ref-6)
7. See *Summary of H.R. 647,* available at: <https://rules.house.gov/sites/republicans.rules.house.gov/files/113-2/PDF/113-HR647-SxS.pdf> (last accessed January 7, 2015). [↑](#footnote-ref-7)