

529 Plans for College Savings

Much like taxes and summer temperatures, college costs continue to rise. Saving for college early can help with the increasing cost of an education and help you be financially prepared when your child is ready for college. One of the most effective ways to help you save is to invest in a 529 plan.

WHAT IS A 529 PLAN?

529 plans are a tax-advantaged investment plan designed to encourage saving for the future higher education expenses of a designated beneficiary (typically your child or grandchild). The plans are named after Section 529 of the Internal Revenue Code and are administered by state agencies and organizations. Each state that offers a 529 plan determines how its plan is structured and which investment options are offered.

WHY USE A 529 PLAN?

529 plans offer many attractive benefits:

- **Federal tax benefits¹** - Assets inside of a 529 plan grow tax-deferred until they are withdrawn. Your contributions to the plan are not federally tax deductible, but they can be withdrawn tax and penalty free as long as the funds are withdrawn for qualified education expenses. These include:
 - » Tuition and mandatory fees.
 - » Books, supplies and equipment (only if the fees and expenses must be paid to the institution as a condition of enrollment or attendance).
 - » The full cost of room and board (if the housing is owned or operated by the college and if the student is at least half-time). Off-campus housing costs can qualify up to the allowance for room and board that the college includes in its cost of attendance for federal financial-aid purposes (the college financial-aid office can give you that figure).
 - » Certain expenses for a special-needs student.
- **State tax benefits** - Some states may offer tax breaks such as an upfront deduction for contributions or income exemption on withdrawals in addition to the federal treatment.
- **Beneficiaries can be changed** - You may change the beneficiary at any time. For example, if your child does not go to college or does not use the entire amount of their 529 plan, you may change the beneficiary to another child or even a grandchild (may be subject to gift tax or generation skipping tax).
- **Owner retains control of the assets** - 529 plans are not considered the assets of the beneficiary, thus you keep control over the assets. This means that if the beneficiary does not go to college, you can cash out the plan. (Earnings are subject to income tax and a 10% penalty.)
- **Substantial deposits are allowed** - Many states allow for substantial contributions to 529 plans - in most states, over \$300,000 per beneficiary (gift tax may apply). 529 plans also allow for accelerated gifting, meaning in a single year, any donor can deposit five years' worth of annual exemption gifts into the plan if they do not make additional contributions or gifts to that beneficiary for the next five years. This is especially beneficial to parents or grandparents who need to remove assets from their taxable estate.
- **Withdrawals are allowed penalty free if the beneficiary receives a scholarship²** - The IRS allows penalty-free withdrawals from a 529 plan up to the amount of qualified education expenses for the academic year. Income tax on the earnings will still apply.

Saving early and often for college expenses is one of the most effective ways to prepare for the substantial cost. With the tax-deferred benefits of a 529 plan, it's possible for your invested assets to grow faster than if they were simply invested in a non tax-deferred account. The earlier you begin contributing to a 529 plan, the more it will have time to grow and help you pay for qualified education expenses. Your Avantax Financial Professional will help you determine the appropriate amount to save and which 529 plan makes the most sense for you.

¹IRS Publication 970- <http://www.irs.gov/pub/irs-pdf/p970.pdf>

²SavingForCollege.com