

Educational Funding Strategies: The Many Advantages of 529 College Savings Plans



Parents and grandparents of small children always ask us: What's the best way to save for a child's education?

There are a handful of options, but in our opinion, one offers a solid mix of features: flexibility, tax advantages, versatility, low cost and ease of use. That's the 529 College Savings Plan offered by most of the states in the USA, and you can access any of them.

WHY IT CAN BE GREAT FOR STUDENTS

Contributions into 529 plans offer federal tax-free growth and tax-free withdrawals when the funds are used for the student's qualified educational expenses. Some of those eligible expenses include the student's elementary, middle, and high school tuition (up to \$10,000 per year per child), undergraduate and graduate education expenses, and vocational and trade school tuition and fees. If funds are not used to pay for the student's education, the account continues growing and can be used for the next generation's educational expenses.

WHY IT CAN BE GREAT FOR PARENTS

Anybody can make contributions to the account. Birthdays, graduation gifts, or other significant milestones for the student are great opportunities for family and friends to contribute to the plan. While 529 investment choices are limited, costs are extremely low, and the investments can be automated to change allocation as the student approaches their enrollment date. You can also shop around to find the 529 plan that is most suitable for you regardless of what state it is in, and the student can attend college in any state, regardless of where the plan is.

Another key benefit of the 529 plan is that an adult has control of the account from start to finish. Unlike a Uniform Transfer to Minors Act account (UTMA), parents are not required to "hand the keys" to the child as they reach a certain age.

WHY IT CAN BE GREAT FOR GRANDPARENTS

A 529 plan is a great idea for grandparents because it allows them to earmark gifts for education while maintaining control of the account. Additionally, should the grandchild listed as beneficiary not utilize the funds, a different family member can become the beneficiary in their place. Another significant benefit of having grandparents open a 529 account is that the funds do not count against the child from a financial aid standpoint like 529 plans do when controlled by the parents.

IT CAN BE GOOD FOR TAXES TOO

From an **estate tax** perspective, gifts into a 529 plan are deemed "completed" gifts and are no longer part of a parent's or grandparent's taxable estate. The current IRS gift exclusion is \$15,000 per-year per-person, and contributions into 529 plans can last as long as you like. There is even a feature with 529 plans allowing "frontloading" five years' worth of annual gifts at one time.

From an **income tax** perspective, money withdrawn for qualifying educational expenses in the year the expense is incurred is free from tax. This means there are no capital gains taxes or ordinary income taxes due on any of the accumulated investment growth. Some states even offer a state tax deduction on contributions provided that the donor is a state resident, and the 529 plan is in their own state's plan, further sweetening the incentive to save. (California does NOT offer a state deduction.)



Additionally, unlike other options (such as Roth IRAs), there is no phaseout of eligibility due to high income of either the donor or the parents of the student.

If that seems like a long list of potential benefits, that's because it is! Feel free to get in touch with us to learn how a 529 plan might fit your own plan for funding college. We're happy to discuss it! Or if you wish to explore more on your own, we like CollegeSavings.org, which is a great place to research and compare 529 plans available by each state.

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