

College Savings: 529 Plans

529 Plans - An effective way to handle the cost of education

A “529 Plan” is a tax-advantaged program, established under Section 529 of the Internal Revenue Code, that helps families and individuals prepare for the future costs of a college education. Plan participants contribute to an account or purchase tuition credits or certificates on behalf of a beneficiary. These plans are known as Qualified Tuition Programs.



The term “qualified tuition program” means a program established and maintained by a State. Under such a program persons may purchase tuition, fees, books, supplies, room and board on behalf of a designated beneficiary, or may make contributions to an account which is established for this purpose. The earnings in 529 plans grow completely free of federal income-tax. There will be no tax on the earnings for qualified distributions. Withdrawals can be taken at any time but there will be a 10% penalty on the earnings portion for unqualified distributions and the distribution will subject to the ordinary income tax of the recipient.

529 College Savings Plans are a way for foundations, and other charitable groups to create a scholarship program that is professionally managed. The organization can more efficiently manage its resources by creating an investment strategy and maintaining control of the group’s assets until the educational expenses are due. The investment committee controls the way the funds are allocated but the underlying

investments are selected by the investment company. There is no taxable income (even if the organization does not have 501(c) (3) status) and the donors are assured that their donations will be used as intended. The 529 College Saving Plans can be a great tool for an organization to build a sustainable scholarship program.

Money invested in a college savings plan is typically invested in mutual funds. The investments bear part of the fees and expenses of these underlying funds. These expenses are expressed as a percentage of a mutual fund’s assets. Before investing in any investment vehicle please consult with a financial professional.

Plan Type	Plan Benefits	Plan Constraints
529 Savings Plans	Tax deferred growth, tax free withdrawals if used for qualified expenses. No income restrictions on the ability to contribute.	A 10% penalty and taxes on the earnings of funds will be incurred if used for “non-qualified” expenses. Limited control of the investment expenses associated with the funds.
Coverdell Education saving account	The money invested in a Coverdell Saving account can be used for primary and secondary education as well as college. Tax deferred growth and tax free withdrawals for education.	Contribution is limited to \$2,000 per year per child. You can not contribute if earning more than \$110,000 (single) or \$220,000 (joint). Child owns the account and this may reduce financial aid eligibility.
UGMA/ UTMA	A uniform gift/transfer to minor account has no contribution limit. Any amount over \$11,000 per year may be subject to gift tax. Income is taxed at the child’s rate if the child is over 14. If the child is under 14 years of age the first \$750 is tax free and the any amount over \$750 is taxed at the child’s rate.	The account will become property of the child when they reach majority age. Gifts are irrevocable and withdrawals must be used for the benefit of the child, but not for items that the parents would be otherwise expected to provide (i.e.medical care, housing).
2503 (c) Trust	No Contribution limit. Any amount over 11,000 per donor per year may be subject to gift tax. Assets may remain in trust after the child reaches age of majority.	A trust can be expensive to set up and may require a lawyer. Income is taxable to the trust at a rate of 38.6% after \$9,200 in annual income.
Taxable Investment	No Contribution limit. Investment flexibility	Account earnings are taxable.