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The Savvy Investor

Save For College … Tax-Free
529 Plan Details

The 529 College Savings Plan allows you to save for your children or grandchildren, completely tax-free.

Tax Advantages

There are numerous tax benefits. **Money in the account grows completely tax-free, and there are no taxes when the money is withdrawn and used for higher education expenses.**

Also, money in a 529 plan is excluded from the account holder's taxable estate. For estate planning purposes, the Plan is an excellent way for parents or grandparents to remove money from their estate while helping a loved one afford college.

Affordability

There is no minimum annual contribution required. The account holder can contribute a maximum of $14,000 (in year 2015) per year per beneficiary without incurring federal gift taxes. A 529 plan is the only way to contribute as much as $70,000 in one year without incurring federal gift taxes. The $55,000 contribution counts as the current year $14,000 gift and the next four years worth of $14,000 gifts to that beneficiary. The Plan has an overall limit of $250,000 per beneficiary.

Convenient

Contributing to the plan is easy. Account holders can deposit by check, through automatic account withdrawal, or automatic payroll deduction.

Flexibility

Withdrawals from the account can be used at numerous eligible schools nationwide. The Plan covers almost all expenses related to college including tuition, fees, room and board, books, equipment and supplies. If the child decides not to attend college or does not use all of the funds, the account beneficiary can be changed to another family member. The account owner can even take the funds back, subject to taxes and a penalty on the earnings portion of the withdrawal.

If account owners need to withdraw some of their funds for non-college related expenses, the withdrawal is taxed at their normal tax rate plus a 10% IRS penalty on only the earnings portion of the withdrawal. If the beneficiary receives a scholarship, the account owner may withdraw funds, up to the amount of the scholarship, without paying the 10% IRS penalty on the earnings portion of the withdrawal. The IRS penalty is also waived if the beneficiary passes away or becomes disabled.

Your Next Step

Please contact us if you would like more information on how you can make college more affordable.