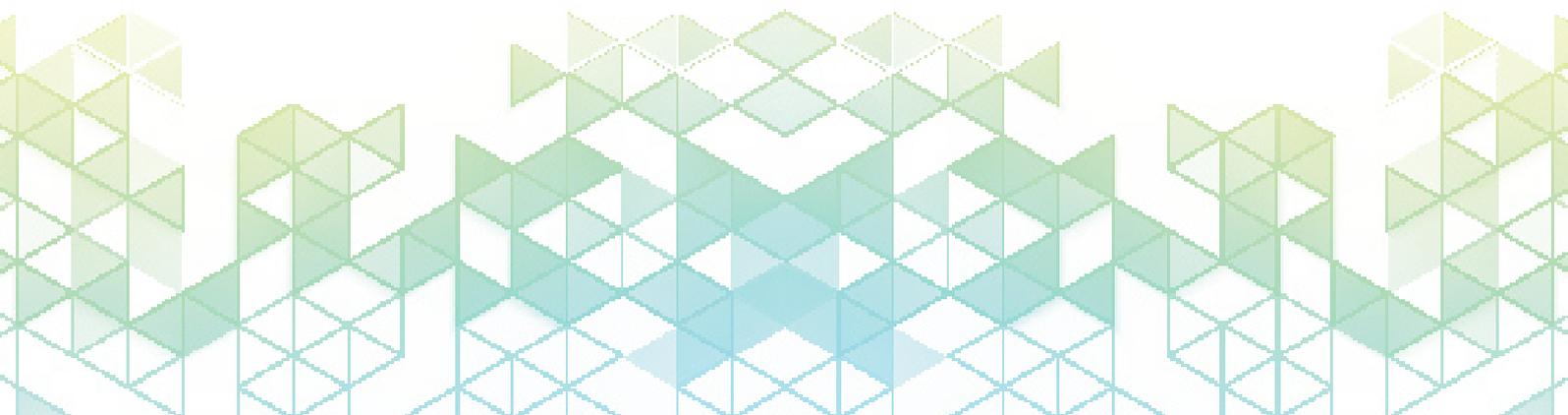




## Benefits of a 529 College Savings Plan



As the costs of a college education continue to skyrocket, parents may find themselves with limited options for savings vehicles. A college savings plan provides them with both flexibility and tax advantages that make it an attractive alternative to student loans.



## What is a College Savings Plan?

Created in 1996 as part of the Small Business Job Protection Act, college savings plans were initially designed solely as a method of saving for post-secondary education. In 2017, as part of the Tax Cuts and Jobs Act, their purpose was expanded to include the costs of private K-12 education.

All 50 states and the District of Columbia offer a college savings plan. Legally known as qualified tuition programs and sometimes referred to section 529 plans because of the part of the Internal Revenue Code that contains the rules the plans must follow, investors are not limited to the college savings plan offered only by their own state.

While parents -- and others who are interested in paying for a child's education -- should research other states' 529 savings plans, they shouldn't rule out their own state's offerings. The money isn't taxed while it is being funded or when it's withdrawn as long as it's used for educational purposes. In addition, the District of Columbia and 34 states also offer tax advantages to those who make contributions to their own state plan.





## What Expenses can a 529 Plan Cover?

In addition to paying for college tuition and any mandatory fees, a 529 college savings plan can be used to pay for elementary and secondary education. A four-year college isn't the only type of secondary education that can be paid for using this type of saving plan. Trade schools, two-year colleges and vocational schools also qualify as long as they can participate in the Department of Education's student aid programs.

Other eligible expenses can also be paid for with a 529 savings plan. These include internet service, meal plans, computer equipment and room and board. Expenses associated with any services required by a special needs student, educational supplies and equipment can also be paid for using a 529 plan.





# What are the advantages of setting up a 529 plan?

A 529 plan can be set up by anyone, making it the ideal investment vehicle for family members, friends and others to fund the educational needs of a particular beneficiary. Below are a few of the additional advantages of a savings plan:

- The earnings from a savings plan aren't subjected to federal income taxes as long as the funds are used for educational expenses as defined by the plan.
- Presently, 34 states provide tax credits and/or deductions for those who contribute to a savings plan.
- At the federal level, different tax advantages are possible including protection from gift taxes if the funds are used for a 529 plan.
- In most cases, a college savings plan is transferable, though some plans may place limits on who the new beneficiary can be.
- Sending distributions directly to the beneficiary means the funds would be taxed at their rate if they are taxed at all.
- The plan holder can withdraw the funds from a 529 plan at any time and for any reason.





# What are the drawbacks of a college savings plan?

A college savings plan provides lots of flexibility and advantages -- both for the beneficiary and for the plan holder. There are also some disadvantages that are worth noting however.

- Certain expenses cannot be paid for using a savings plan including travel costs, student loans, transportation to and from the school, cell phone plans and any technological device used primarily for entertainment, health care, elective clubs and activities and any costs for entertainment.
- Each state establishes a limit that the savings plan can be funded up to in a given year. For this reason, it's important that those individuals who are contributing to the educational needs of a particular person are aware of how much each is funding.
- Withdrawals not used for the beneficiary's qualified educational expenses could incur a 10 percent penalty.
- Even though the 529 is owned by the plan holder, being the beneficiary of such funds could affect the beneficiary's access to financial aid.
- While the tax advantages of establishing a college savings plan are substantial, it's important to not overlook the fees that an individual plan might charge. Because these are typically charged on a yearly basis, their impact should be considered when choosing a particular plan.





## What kind of savings plans are available?

529 plans can be classified into two general categories: prepaid tuition plans and college savings plans.

- Prepaid tuition plans are provided by educational institutions and states, giving the plan holder the ability to prepay for future college attendance at today's prices. This strategy offers protection against rising tuition costs and allows the funding of a fixed number of credits or period of time.
- Savings plans function similar to IRAs, allowing the plan holder to invest in mutual funds to meet their educational goals. Offered only by states and the District of Columbia, the holders of a savings plan must carefully strategize in order to maximize the amount available to the beneficiary.



## What if the beneficiary doesn't go to college?

Given the uncertainty of a particular person's desire to go to college, setting up a college savings plan for a baby or small child might seem less than ideal. Any withdrawals that are not used for the beneficiary's educational expenses are subjected to taxes and penalties. However, if the beneficiary decides not to attend post-secondary education, that person can be easily changed. In fact, the plan holder can also be the beneficiary.

In some cases, the penalties could be waived. If the beneficiary decides to attend a military school or is the recipient of a tax-free scholarship, these fees might be waived. They'll also likely be disregarded if the beneficiary dies or becomes disabled.

# Final Thoughts

While college savings plans offer some fantastic advantages for both the plan holder and the beneficiary, there are also different terms for each one that must be considered before making a final decision.

Contact us for professional assistance in choosing the right 529 plan for your needs and those of your beneficiary.



# About Olsen Thielen

Olsen Thielen is a full service accounting and consulting firm, and a "Top 25" firm in Minneapolis and St. Paul, Minnesota. We focus on providing top quality solutions for our clients through our traditional accounting and tax services, as well as non-traditional services like valuations, business succession planning, employee benefits and human resources consulting, back-office cloud accounting solutions, estate, gift and financial planning, and fraud and forensic accounting.

Olsen Thielen was founded on the belief that personal attention, trust, and quality service were the key elements to helping our clients succeed. Over 95 years later, that commitment remains. Our longevity and growth can be attributed to building strong relationships with our clients and continuing to earn their trust.



Olsen Thielen  
Roseville Office:  
2675 Long Lake Road  
Roseville, MN 55113

Eden Prairie Office:  
300 Prairie Center Dr. Ste. 300  
Eden Prairie, MN 55344



Roseville: 651-483-4521  
Eden Prairie: 952-941-9242



[resources@otcpas.com](mailto:resources@otcpas.com)



<http://www.otcpas.com>

