College Planning- It Doesn't Have to be Terrifying

Everything You Need to Know Now about 529 Accounts and College Planning

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529 accounts are a powerful tool that can help you to pay for your child's college tuition. Most people know what these tax advantaged educational accounts are, but few truly understand how they work. In this article I will go over the key features and benefits of 529 accounts and explain the things that you need to know now about 529 accounts.

Features and Benefits

1) You can contribute up to 15,000 per year into a 529 account (without incurring a gift tax with the IRS as of 2019.) If you haven't contributed and want to catch up you may be able to take advantage of your federal gift-tax exclusion to fund $75,000 per person or $150,000 per couple in a single year, contact your accountant for more details as this would use up your federal gift-tax exclusion for five years.
2) Qualified withdrawals are federal income tax free (and in many states, state income tax free) as long as the total withdrawals for the year don't exceed your child's adjusted qualified higher

education expense (QHEE.) See this article and talk to your accountant for more information on calculating your child's QHEE: https://institutional.fidelity.com/app/item/RD_9892057.html?sapl=email&camp=PDM14506&prgm=1142598&clientId=tvISKutIKLs%3D&cid=PDM14506&bid=41018276

3) Because of the tax law changes in 2018, 529 accounts can now be used to pay for up to $10,000 per year on tuition expenses for elementary, middle or high school.
4) When you pay for qualified education expenses withdrawals are tax and penalty free. These expenses include tuition at any college, university, vocational school or other postsecondary educational institution eligible to participate in student aid administered by the U.S. Department of Education.
5) If your child is enrolled half time or more you can use a 529 account to pay for room and board but the costs can't exceed the greater of the following:
    - Allowance for room and board included in the school's cost of attendance for financial aid calculations
    - Actual amount charged if the student resides in housing operating by the school

    If your child lives off campus that is fine, but you can't claim expenses in excess of what it would cost based on the school's estimates for room and board.

6) Other qualified educational expenses that a 529 can be used for include required reading textbooks, computers and software used primarily by the beneficiary for educational purposes.

When your child is accepted into the college of their dreams it is a scary and exciting time for everyone. Remember to keep good records. Plan what you will need to withdrawal ahead of time by talking to your child's school and getting an idea of what the actual expenses will be. You might choose to pay the college right from your 529 account, or pay the bills out of your bank account and then reimburse yourself from the 529 account. Whatever your choice is, always remember that you must submit your request from the 529 account in the same calendar, not academic, year.

It is also important to consider the effect 529 accounts can have on federal tax credits and student aid. If you use 529 account withdrawals to pay for expenses you can not claim them as a tax credit. The government doesn't let you double dip for the American Opportunity Tax Credit or the Lifetime Learning Tax Credit, so it is important to talk to your accountant and come up with a strategy for funding your child's education that is the most beneficial. When it comes to student aid and loans, 529 plans are generally considered an asset of the parent and therefore affect a student's federal financial aid eligibility less than an UGMA or UTMA account. The effect that 529 accounts have on a student's financial aid eligibility is usually minimal.

So what do you do if your student has some extra funds in their 529 account? First of all, you celebrate because your child now has a college education! Next you can decide to change the beneficiary to another member of the original beneficiary's family or one of your other children without penalty. You might decide to let the funds continue to accumulate if your child plans to continue on to graduate school. Whatever you decide, make sure to check with your financial advisor and your plan documents for your specific provider's requirements.

A good financial advisor can help you plan for your child's college expenses well in advance. Consult with yours today, or feel free to give us a call at Lovett Advisors at (302) 250-4740 if you have any questions.

Article by Suzanne Heron
Financial Advisor
Lovett Advisors, LLC

T. 302-250-4740
F. 302-380-3334
62 Rockford Road, Suite 12, Wilmington DE 19806
suzanneheron@lovettadvisors.com
www.lovettadvisors.com