Your Firm LLC

Benefits of a 529 College Savings Plan

The cost of a college education is very expensive and growing. For this reason it's more important than ever to begin saving early and to use the right financial vehicles for growing what you save.

The primary vehicle for saving is a 529 College Savings Plan. By utilizing a 529, you can take advantage of a combination of tax-free growth and other incentives. Most financial experts agree 529 funds are one of the best options when it comes to college savings.

You can start a 529 fund quickly and easily, but maximizing your savings potential may take a bit more planning. We recommend discussing your options with one of our qualified professionals who can go over your personal finances and education plans to arrive at a solution that works best for you.

Here are some general rules that can help you get started:

Start saving as soon as possible

Like most investments, you can maximize your 529 earnings potential by starting early. This provides more time to save and enables you to contribute smaller amounts over a longer period of time.

Also, when your child is years away from college, you can afford to take a riskier allocation strategy, which will likely pay off in the years to come. Once college is looming close, you'll need to take a more conservative approach, which can negatively impact your fund's overall growth.

Research all of your options for college savings and cost reduction

A 529 fund is only part of the bigger picture when it comes to college savings opportunities. Consider:

- American Opportunity Tax Credit
- Federal grants
- Tuition assistance
- Scholarships

Taking advantage of these options can help to reduce your overall bill.

Research your 529 plan and its limitations

529 plans vary from one state to the next, and your state determines the rules for your plan. You should research things like lifetime contribution caps and administrative or maintenance fees before you choose a 529.

Also, most states offer state income tax incentives, such as credits or deductions, when you contribute to an in-state 529 plan. But there may be specific requirements, and some states don't offer any tax savings on a state level, so it's important to do your research.

Only use the 529 fund for qualified expenses

If you take a 529 distribution and don't use it for qualified education expenses, you'll be hit with taxes as well as a penalty on the earnings portion of the fund.

To avoid this costly mistake, make sure you're using the funds for one of these qualifying higher education expenses:

- Tuition and fees
- Books and supplies
- Computers and internet access.
- Room and board, subject to at least half-time enrollment
- Equipment for special needs
- Up to $10,000 per year of kindergarten through Grade 12 tuition and fees

Travel expenses and student health insurance don't qualify.

Make student loan payments

The SECURE Act allows beneficiaries to use 529 funds to pay for up to $10,000 of student loan repayments. Each sibling of the beneficiary may also use an additional $10,000 for loan repayments.

Use funds for more than one student

You can change your plan's beneficiary so it covers more than one student. A qualifying relative might include a grandchild, niece, nephew, or sibling. Many people name one beneficiary, use the fund for his or her college expenses, then name another beneficiary if there's money left in the fund.

Don’t worry about the penalty

While you should certainly try to use your 529 for eligible education expenses, don’t worry so much about the penalty that you avoid taking disbursements or forego using a 529 plan at all.

If you withdraw any investment gains from a 529 account before the account beneficiary incurs any qualifying expenses, or for non-qualified reasons, the IRS can assess a 10% early withdrawal penalty in addition to taxes on the gains.

Even with the penalty and taxes, a 529 plan still offers tax-deferred growth, which is an excellent savings strategy.

Also, remember that there are many exceptions to the 10% penalty rule. The new laws allow students to choose an apprenticeship instead of college, and you can always change the beneficiary to another qualified student if the primary beneficiary decides to skip school altogether.

Next Steps

If you want to maximize your 529 fund, simply treat it like any other investment account. Start saving early, save as much as you can, take advantage of each incentive, and know the fund’s limitations. If you’d like more personalized advice regarding 529 funds, please contact our office. Our experts can help develop a strategy so you can maximize your college savings and start contributing to a 529 today.

About Your Firm LLC

We have hand-picked a team with tax, auditing, accounting, business and management advisory expertise in a multitude of fields, including healthcare, professional-services firms, commercial contractors, home builders, real estate companies, manufacturing and distribution companies, dealerships, non-profit organizations and pension funds.

We have the expertise and the resources to provide not only the critical services you need during these evolving economic times, but also, importantly, to build for the future. Our strategic alliances with professional organizations across the country allow us to bring our clients the talent and expertise of national firms with the high-touch service of a local firm. While we remain focused on the core services of tax, accounting and audit, we expand and offer you the business consulting needed to remain competitive. We believe the success of our clients is the greatest measure of our own.

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