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### CALIF SCHOLARSHARE TRUST (A COLLEGE SAVINGS PLAN)

By Victor Sy, CPA, MBA

The Golden State Scholarshare Trust is California's version of the federal government's qualified state tuition program. It is a **college savings plan** to encourage families save up for any beneficiary that they so chose. Let us review the **general rules and mechanics** of this new incentive program.

1. The objective is to make contributions to an account established for a beneficiary's college expenses for **bachelor's degree, associate's degree, graduate level, or vocational certificate**.
2. The contributions can be used to purchase tuition credits or certificates.
3. The contributions are **not tax deductible** but the **earnings are tax deferred** until earnings are distributed.
4. The earnings are taxed to the beneficiary (who happens to have a lower tax bracket).
5. If the full amount is not used, the balance can be rolled over to another beneficiary.
6. Any adult living in the U.S. can open a Scholarshare account for a beneficiary.
7. The funds are placed in a trust that is managed by an investment board.
8. The trust can invest in stocks, bonds, and money market instruments.
9. The earnings are not taxed for both federal and state until the beneficiary goes to college.
10. Upon disbursement, the beneficiary pays tax on the earnings.
11. The student or parents may also claim the federal HOPE or Lifetime Learning Credit (double whammy).
12. There are no limitations on the contributor's adjusted gross income (unlike IRAs or education IRAs).
13. Although these accounts are traditionally set up for a child or grandchild, there is no requirement that the beneficiary be related; therefore, it can be set up for any beneficiary.
14. Several contributors may deposit into one account for the same beneficiary.
15. A contributor cannot set up one account for several beneficiaries. A separate account must be set up for each beneficiary.
16. The plan can remain open until 10 years after beneficiary reaches the age of 35 (maximum age is 45).
17. After the beneficiary graduates or has no more intention of further attendance, the contributor may withdraw the funds, transfer the benefits to another member of the beneficiary's family, or hold the funds until a later date when the student may decide to go back to college.
18. The donor never loses control of the funds that can be returned to that donor at any time even if the beneficiary still needs the funds.
19. Withdrawals are determined by the donor, never by the beneficiary.
20. A transfer to a new beneficiary must be related to the original beneficiary 21. The contributor selects the new beneficiary.
22. The rollover must be made within 60 days to be tax-free.
23. If the funds are not rolled over and subsequently returned to the contributor, a 10% penalty applies, but just on the earnings.
24. The contributor may cancel the plan at will.
25. Here are some estimated annual tuition fees for some schools in California: Cal State \$3000, University of California \$5000, Caltech \$23000, USC \$27000, Stanford \$30000. Room and board are extra and range from \$10000 to \$20000.

Good Day.