Sy Accountancy Corporation
Member, American Institute of CPAs
704 Mira Monte Place, Pasadena, California 91101
Tel (626) 744-0200 • Fax (626) 744-0300 • vsy@victorsycpa.com • www.victorsycpa.com

QUALIFIED TUITION PROGRAMS (SECTION 529 PLANS)

By Victor Sy, CPA, MBA

Qualified tuition plans (sometimes referred to as Section 529 plans) are established to help families save for college education in a tax-advantage way. Let's explore the history and mechanics of these plans:

- Michigan started education plans in 1986 with Michigan Education Trust. The IRS ruled that it was a taxable entity. The State of Michigan went to Court and won the right to set up education trusts.
- The Small Business Job Protection Act of 1996 added Section 529 that gave states guidelines to enact their own Qualified State Tuition Programs. All 50 states now have legislation for their own plans.
- Prepaid Tuition Plans allow parents to pay future tuition costs in today's dollars. By locking in tomorrow's costs in today's rates, parents can worry less about the escalating costs of college. Full coverage can be attained only if the child goes to public college or university.
- College Savings Plans allow parents to invest into money market funds, stocks, or bonds. There are no guarantees of growth and face the normal investment risks but the child can chose any school.
  TIP: Start with growth funds that are more aggressive in the early years and covert to safer investments as beneficiaries approach college age.
- Covered expenses include tuition, fees, books, supplies, and equipment, reasonable room and board or $2,500 per year off campus (but not at home).
- Minimum contributions vary by state. The maximum amount is based on projected costs of education of each state, which have generous limits in excess of $200,000.
- Parents don't get deductions but earnings are tax free when withdrawn for qualified education expenses.
- Since you make the sacrifice to save for a child's college education, you retain control (not so with the uniform gift to minors who can claim the bank account once they reach the age of majority).
- A grandparent can contribute the money and place the parent as the owner who controls the funds.
- Though the plan is an asset of parents, consider potential impact on financial aid.
- If the designated beneficiary decides not to go to college, the owner can simply change the beneficiary to someone else in the family.
- If the funds are withdrawn for purposes other than education, the earnings withdrawn will be subject to regular tax and 10% penalty.
- Contributions are considered completed gifts and are therefore subject to gift tax rules. You may contribute $13,000 without triggering annual gifts concerns. You may want to take advantage of a five-year option that allows you to contribute $65,000 in one year.

Good day.