

## **529 PLANS OFFER FLEXIBILITY, TAX FREE SAVINGS**

**Saving for college became easier when the Congress passed President Bush's tax reduction plan last year. The bill changed the taxation of state-sponsored 529 savings plans from tax deferred to "tax free". Most states have already altered their existing programs to include new features besides the tax-free buildup within the plan.**

**As a wealth transfer tool, 529 plans allow any individual to open a 529 savings account for any other family member without prejudice toward the donor's income bracket. In fact, many states allow lifetime contributions to 529 savings plans of up to \$250,000 per beneficiary. Of course, to reach this contribution limit, gift tax issues must be considered.**

**The average person, however, may want to take advantage of the normal gift tax provisions that allow any individual to contribute up to \$11,000 per year to an account for their child's or grandchild's benefit. They may also elect a one-time \$55,000 contribution legally spread over five tax years. Since ownership of the account remains with the donor and not the beneficiary, parents or grandparents can make the election simultaneously by setting up multiple accounts for the same child.**

**Even though plan contributions are made with after-tax moneys, the growth within the account and the ultimate withdrawals are tax-free if the moneys are used for qualified higher education (not high school) tuition, and expenses. Most states offer plans that can start with as little as \$500 with subsequent contributions as low as \$100.**

**The magic within the new 529 offerings is in the control of the assets. Unlike UGMA accounts that place possession and ultimate control of the assets into the beneficiary's hands, 529 plans keep control of the assets in the donor's hands. If the child does not utilize the moneys in the plan for educational purposes, the donor can shift the plan to another family member to protect the tax-free status of the account. If the moneys eventually go unused for college expenses, the donor can withdraw the moneys back to him or herself. In such an instance, the growth within the plan would be taxable at ordinary tax rates plus an additional 10 percent penalty would be imposed on the donor as well.**

**Flexibility is another huge issue for the expanded 529 state offerings. Participants may choose out-of- state plans if that particular state offers more**

investment options, like those offered in Nebraska or Delaware. Most states allow non-resident participation without consideration to the school the plan beneficiary may ultimately choose. That's good, since it is impossible to know if two-year-old Johnny or Susie will attend a college in Massachusetts, Colorado, or home states New Jersey or Pennsylvania.

Although flexible investment options have been added in many states, most states, however, still offer the age-weighted investment options that essentially affect a planned asset allocation change, as the child gets older. A greater percentage of bonds are automatically added to the portfolio, thus making it more conservative, as the child reaches age 18. This is the only structure currently offered under New Jersey's 529 plan offerings.

Like many other states, however, New Jersey is studying the possibility of expanding their investment options that would allow participants asset allocation control, regardless of the beneficiary's age.

For more information on 529 plans, visit the website of Joseph Hurley, CPA at [www.savingforcollege.com](http://www.savingforcollege.com). Mr. Hurley offers excellent comparisons of all the state plans, without prejudice.

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