MIDWEST TRUST
FCI ADVISORS

WEALTH PLANNING INSIGHTS

July 2022

529 COLLEGE SAVINGS BASICS

What is a 529 College Savings Plan?

529 plans are state sponsored, tax advantaged education savings accounts. Designed to facilitate and incentivize saving for future college expenses. All fifty states and the District of Columbia sponsor at least one 529 offering.

What are the tax benefits of a 529 plan?

Contributions made to 529 plans are made with after-tax dollars. Investment earnings within a 529 plan occur on a tax deferred basis. Withdrawals that are used for qualified education expenses are tax free. If funds are withdrawn and not utilized for qualifying education expenses, the earnings portion of the withdrawals would be subject to federal and state income taxes as well as a 10% penalty. There may also be state income tax deductions available depending on your state.

Which expenses are considered "qualified"?

529 plan funds can be used to cover tuition at accredited post-secondary educational institutions, which generally include: colleges, universities, trade schools, and vocational programs. Usage of 529 funds was also recently expanded to include tuition at private K-12 schools.

In addition to tuition, 529 funds can be used to cover an array of other expenses, including: room and board, technology items (laptops, printers, internet, etc.) and books. Student Loan repayment is now a qualified expense at the federal level up to $10,000, but may not be eligible at the state level.

How do I get funds out of a 529?

Withdrawal methods vary among plan sponsors, but generally include the ability to pay qualified expenses directly from the 529 or transfer funds to an individual's account to pay expenses. A 529 withdrawal will be followed by an IRS form to document qualified usage of the funds. It is important to note that 529 plan distributions must be made during the same tax year in which the qualified expenses are incurred.

How is ownership structured?

There are generally two key parties to each 529 account, the owner and the beneficiary. Commonly, accounts are owned by parents for the benefit of their child, however anyone can own a 529 for any beneficiary, including themselves. There are no age restrictions for beneficiaries and there is no age at which distributions would be required.

The account owner retains control of the assets within the 529. The account owner may change the beneficiary, however rules apply to ensure beneficiary changes do not trigger gifting rules or tax penalties. 529 beneficiaries can be changed by the account owner, but must be changed to a family member of the original beneficiary; adding a beneficiary outside of the family may trigger gifting rules.

How are contributions structured?

All 529 plans accept third-party contributions, regardless of account ownership. This allows others, often family members, to assist in funding. Contributions are subject to annual gifting limitations; the annual limit is $16,000 per donor per beneficiary. Unique to 529 plans, however, is an accelerated gifting option which allows five years of annual gifts ($80,000 per donor per beneficiary) to be made in one lump sum; no further gifts may be made in the five years following an accelerated gift, and a gift tax return should be filed to indicate a multi-year gift. Finally, each state has an aggregate contribution limit per 529 plan which ranges from $235,000 to $550,000.

How do I choose a 529 plan?

Depending on your state's rules, you may need to select your home state's plan in order to obtain state income tax benefits. Otherwise, you are free to choose any state's program. Many investors choose on the basis of which state's plan offers investment options that are attractive to them, though most states now offer a diversified menu of low cost choices.

How much should I contribute?

There are a variety of factors to consider when determining how much to save for a beneficiary's education. Where will they go to school? What kind of scholarships will they receive? How much financial aid may be available? If you would like assistance in determining an appropriate savings level for your specific situation, a member of our Wealth Planning Group can assist you.

Overfunding a 529 is a consideration due to limited usage and potential withdrawal penalties. Some investors choose to use other, non-restricted forms of savings to complement 529 funding.

Specifics on Kansas and Missouri 529 Plans

Learning Quest (https://www.learningquest.com) is the **Kansas** 529 plan. The state tax deduction is up to $3,000 for single filers and up to $6,000 for married filing jointly

Missouri Most (https://www.missourimost.org) is the **Missouri** 529 plan. The state tax deduction is up to $8,000 for single filers and up to $16,000 for married filing jointly. Neither Kansas nor Missouri require the use of their home-state program to obtain a state income tax benefit.

For information on other state plans or additional details on 529's more broadly, visit resources like irs.gov and savingforcollege.com.

This information was compiled from publicly available sources and is believed to be accurate. Consult your state plan sponsor and/or tax professional for specific advice.

07/22