

Education Savings Enhanced with 529 Plans

It's back to school time and perhaps your child is heading off to school for the first time. That means college is just around the corner and you're wondering how to save for the ever-escalating tuition costs. In 1997, Congress passed the Taxpayer Relief Act of 1997. With this new tax law came new credits, deductions, and savings incentives for your child's education.

One of these saving incentives is the 529 College Savings Plan authorized under Section 529 of the Internal Revenue Code. It is designed to help families save for future qualified higher education expenses. Contributions to these savings plans are not tax-deductible. However, provisions in the code allow for the earnings to grow tax-deferred until the funds are withdrawn to pay for qualified higher education expenses. These 529 plans allow you the flexibility to choose the portfolio that best fits your needs while simultaneously allowing you to control withdrawals from the account for as long as the account is maintained.

On June 7, 2001, President Bush signed into law a \$1.35 trillion tax cut bill that has within it provisions related to 529 college savings plans. Withdrawals used for qualified college expenses from a 529 plan are free of federal tax as of January 1, 2002. While not all states sponsor a 529 plan, many plans allow non-residents to participate and permit contributions for out-of-state college expenses.

Family members or friends can make contributions to 529 savings plans. There is a much higher contribution limit than for other education savings plans and there are less binding income restrictions. Most states are partnered with mutual fund companies who actually manage the funds.

The cost of a college education goes up more and more each year. Parents need to start planning early for their child's college education. One of the best ways to save is with the 529 College Savings Plan. Not only can the parents contribute, but also grandparents and other family members. With the tax-deferred earnings and the qualified tax-free withdrawals, it's probably the best education savings vehicle available.

The 529 College Savings Plan is just one of many tax incentives that can help take the sting out of the high cost of a college education. Others include the Coverdell Education Savings Accounts, Education Savings Bonds, the Hope Scholarship Credit, the Lifetime Learning Credit, and the Education Loan Interest Deduction.

AJE Financial Services can assist you with planning for your child's education with the 529 College Savings Plan.