Tax Strategies

Advantages of the '529' College Savings Program

By BARRY LISAK

What can be better than lowering your taxes? With a 529 plan, you have no Federal tax obligation once your money's invested in your account. But the best part is that your earnings grow Federally tax-deferred, qualified withdrawals are tax-free, and in some states have other tax benefits as well.

1. **Deduction.** For instance, in New York up to $10,000 is deductible from the state taxable income for married couples filing jointly; single taxpayers can deduct up to $5,000 annually. (This may be subject to recapture in certain circumstances such as rollovers to another state's 529 plan or nonqualified withdrawals).

2. **Compounding.** The tax breaks you get from a 529 plan could translate into an increase in your plan assets because of compounding. You see, the money you don't have to pay in taxes stays in your account and potentially generates even more earnings. And the earlier you start saving for college, the more years you have to make compounding work for you.

3. **Contributions.** Some states set limits on how much you can contribute to a 529 plan. But for the most part, the maximums are high (usually between $300,000 and $400,000), which is typically more than enough for four years of undergraduate school. Plus, your 529 plan contributions can qualify for a gift exclusion, which means up to $14,000 per year, per beneficiary, without incurring Federal gift tax.

4. **Age and income.** Almost anyone can open a 529 plan, anyone (regardless of age) can be the beneficiary of a 529. In addition, your tax incentives won't disappear because your income is too high—a situation that can occur with IRAs and some education-savings accounts.

5. **Number of accounts.** You can open multiple 529 plan accounts—for different beneficiaries or the same beneficiary—in one or more states.

6. **Investment choices.** Many 529 plans offer age-based investment options that gradually become more conservative as your child gets closer to college. That means you can simply choose a fund that meets your risk level and let the fund do the rest.

7. **Tax reporting.** April 15 becomes less of a headache because your 529 contributions don't have to be reported on your Federal tax return. And there are no taxes when withdrawals are used for qualified educational expenses.

8. **Plan spending.** While you must use your 529 plan assets for qualified educational expenses, the "qualified" category has expanded considerably in recent years. You no longer have to think tuition only. Your savings can be used for room and board, computers, course supplies, and even internet access.

9. **Concern.** Concerned about what happens if your child decides not to go to college or is fortunate enough to receive a full scholarship? No worries. You can always change the beneficiary or leave the money in your account and allow it to grow and compound for your grandchildren (529 accounts never expire). Or you can use it for yourself. What's wrong with treating yourself to a college class?

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