529 College Savings Plans

Frequently Asked Questions

What is a 529 plan?	A 529 College Savings Plan is a qualified tuition program, created by Section 529 of the Internal Revenue Code in 1996, which is operated by a state or educational institution. Savings plans allow participants to save money on behalf of a designated beneficiary for qualified higher education expenses (QHEE). Your investment grows tax-deferred, and distributions to pay for the beneficiary's college costs are federal tax-free.
Does the 529 plan guarantee my child college admission?	No. Your child will need to meet entry requirements of the individual colleges or universities.
Do 529 savings plans have income limitations?	There are no income limitations on a person's ability to contribute to an account.
Who can be a beneficiary?	Any individual, including yourself, may be named as a beneficiary. The beneficiary must be a U.S. citizen or legal U.S. resident. A trust or other entity cannot be named as a beneficiary.
Are there any age limitations?	There are no age limitations for participating in 529 college savings plans. The beneficiary of a 529 savings plan may be any age.
Is there a federal tax deduction for contributions?	No. Contributions to a 529 college savings plan are made with after-tax dollars.
What are the federal income tax advantages?	All contributions to 529 plans grow tax deferred; allowing 529 participants to take advantage of the power of tax deferred compounding. Distributions to pay for the beneficiary's college costs are federally tax-free. Please see the next page for what are considered "qualified higher education expenses".
Can my spouse and I set up a joint account?	Some plans do allow joint ownership. Most 529 plans only permit one individual to establish an account. But each spouse can establish separate accounts for the same beneficiary. You can also name your spouse as the successor owner.
What type of assets can I contribute to a 529 plan?	529 plans can only be funded with cash. You cannot contribute securities or other property. All initial purchases must be done with a check & application to the Fund Company.
Can someone else contribute to my 529 account?	Many 529 plans do allow others to contribute to the account. Third party contributions (i.e. those made by non-owners) if allowed, should be made via check written to the Plan. Otherwise the contribution will be viewed as a gift to the owner. Please note that only the account owner can make decisions regarding the account, including taking withdrawals from the account, changing the account's investments and changing the beneficiary.
What are the gift tax advantages of an account?	Contributions made to a 529 plan are considered present interest gifts. Normally, a gift of more than $14,000 to a single person in one year is subject to federal gift tax. However, with a 529 plan, you can make a gift of up to $70,000 in one year (or you and your spouse can make a joint gift of up to $140,000) without triggering the tax. To do this you must elect to treat the entire gift as a series of five equal annual gifts, and you may not make additional gifts during the five-year period.

Do I or the beneficiary have to live in the state to participate in that state's plan?	No; generally, an individual may invest in any state's plan and use the proceeds for any eligible educational institution in any state. However, favorable tax treatment for investing in a 529 College Savings Plan may be limited to investments made in a 529 plan offered by your home state. Some states do require that the participant or beneficiary be a resident to participate. Please consult your tax advisor, your advisor or contact your home state's college savings plan to learn more about any state tax or other benefits that might be available in conjunction with an investment in your in-state 529 plan.
Can I change the beneficiary on the account?	Yes; the account owner can change the beneficiary at any time. To avoid federal income tax and a 10% federal tax penalty on earnings, the new beneficiary must be a member of the family of the previous beneficiary, as defined by federal tax law, which includes first cousins. If the new beneficiary is a generation lower than the old beneficiary, the change will be treated as a taxable gift by the old beneficiary to the new beneficiary. Generation-skipping transfer tax will apply if the new beneficiary is two or more generations lower than the old beneficiary.
Can I use my account to pay for educational expenses at any college?	Generally, your account can be used nationwide at any post-secondary school that is eligible to participate in federal financial aid programs – including public universities, private colleges, graduate schools, and vocational-technical schools, as well as foreign schools that have been assigned a federal school code. The U.S. Department of Education's database can be accessed at www.fafsa.ed.gov. If you use the funds to pay for costs at a non-eligible institution the earnings portion of the distribution will be subject to a 10% penalty and any applicable state and federal income taxes.
What can the funds be used for to be considered a qualified distribution?	Qualified higher education expenses (QHEE) at any accredited post-secondary institution include: tuition, mandatory fees, room and board (on or off campus, including living at the parent's home. The student must be attending school at least ½ time), books, supplies and equipment required for enrollment. Under current law transportation or personal expenses are not considered QHEE, although they may be considered part of the "cost of attendance" for federal financial aid purposes. Repayment of student loans also does not qualify.
Does it matter when I take a distribution?	Yes. 529 distributions need to be taken in the same calendar year that you pay for qualified higher educational expenses (QHEE) otherwise the distribution will be considered non-qualified and subject to a 10% penalty and any applicable state and federal income taxes.
Can I withdraw the money in my account at any time?	Yes and No. You can withdraw all or any portion of the money in your account at any time for any purpose. However, withdrawals for purposes other than paying for a qualified distribution, as a rule, will be subject to a 10% penalty and any applicable taxes on the earnings portion of the distribution. 529 account distributions and payment of qualified expenses (QHEE) must occur within the same calendar year.
What is the maximum amount that I can contribute?	You can make contributions to the account until the total value (contributions and earnings) of all accounts for that beneficiary equals the maximum level set by the plan. Once the limit is reached, no additional contributions are permitted. However, your accounts can continue to grow in excess of the limit.

How is the maximum contribution limit determined?	Section 529 of the Internal Revenue Code (IRC) requires that investments in the Plan be used to meet realistic qualified higher education expenses for a named beneficiary. Each state Plan sets a maximum investment limit based on the cost of attending the most expensive school in the state for five years.
What impact does a 529 owned by the parent or student have on federal financial aid?	A 529 savings account is treated as an asset of the account owner in determining federal financial aid eligibility. 529s owned by the parent or student are treated as an asset of the parent on the FAFSA form meaning that the expected family contribution towards your child's college costs will include 5.6%, or less, of the value of the 529 account for each academic year. Other assets owned in your child's name are assessed at 20%. QHEE distributions from a 529 owned by the parent and/or the student are tax-free and don't impact your student's financial aid eligibility in the following year. However, non-parent owned 529s may have an effect on the student's financial aid eligibility. Please see the following question.
What is the effect of a grandparent (or other non-parent) owned 529 on financial aid?	Simply owning a 529 account for your grandchild will not affect their eligibility for need-based financial aid, but actually using the account could have a negative impact in the subsequent year. The value of assets owned by a grandparent (or other non-parent) is not reportable on the FAFSA financial aid application. This includes 529 plans owned by grandparents. However, if a grandparent (or other non-parent) provides any type of financial support to the student, that support is reportable as student income on the following year's FAFSA. Most financial aid offices require distributions from grandparent or non-parent owned 529s to be included as student income, even when the distributions are not reportable for federal income taxes (i.e. they are tax-free). If a grandparent were to use the 529 account only to pay for the final year in college, then the income rule would not make any difference. Or you may change the owner to the parent prior to taking distributions.
Can I change my account's investment allocation?	Yes, you can change investments once per calendar year or when you change the beneficiary.
What happens if I change my mind about investing in the program and withdraw the funds?	You can withdraw the funds at anytime. But if you don't use the money to pay for qualified expenses, the investment earnings will be subject to a 10% penalty as well as both state and federal income taxes – at the rate of whoever receives the distribution.
What if my beneficiary receives a scholarship?	If your beneficiary earns a scholarship your options are: • Use the funds to pay for qualified educational expenses that are not covered by the scholarship. • Withdraw the amount of the scholarship without incurring the 10% federal excise tax penalty (but you will have to pay income taxes on the earnings portion of the refund). • Leave the funds in the account for use at a future date (such as an advanced degree) • Change the beneficiary to another member of the beneficiary's family.

What if my beneficiary does not go to college?	If your beneficiary does not go to college, you have 3 options: 1. Leave the money in the account in case the beneficiary subsequently decides to attend college 2. Withdraw the money from your account and pay both a 10% penalty and income taxes on your earnings 3. Leave the money in the account and select a new beneficiary Federal law mandates that a 10% penalty and income taxes on the earnings portion of a non-qualified withdrawal be assessed. In the case of the beneficiary's death, disability, or receipt of a scholarship the federal 10% penalty is waived.
Can I contribute to both a Coverdell Education Savings Account (ESA) and a 529 Plan in the same year?	Yes, you can contribute to both a Coverdell Education Savings Accounts (ESA) and 529 plans in the same year. Annual gifting limits do apply.
Is a 529 Savings Plan like an UGMA/UTMA custodial account? Do I have to give up control of the assets when my beneficiary reaches a certain age?	No; your contributions to 529 plans are considered completed gifts to the beneficiary for tax purposes only– meaning the money is out of the estate of the contributor and in the estate of the beneficiary. But, you as the account owner retain full control of the account for as long as it is open. You decide if and when a distribution will be made and you can transfer assets from one beneficiary to another without penalty, as detailed earlier.
What is the last date I can contribute to be eligible for the state tax deduction for that year?	529 plans operate on a calendar year versus the IRS 'fiscal' year-end of April 15th. Most plans have a deadline of the last business day of the year for the contribution to be counted for that year. And for gift tax purposes, the contribution need to be contributed by the last business day of the year for 'gifts' to be considered made in that tax year. Some plans will accept a date stamp; other plans required that the account be open and the trade executed on or before the last business day of the year. Check with the 529 Plan Manager.

Investors should consider the investment objectives, risks, charges and expenses associated with a 529 Plan before investing. This and other information is available in a Plan's official statement. The official statement should be read carefully before investing.

Depending on your state of residence, there may be an in-state plan that provides tax and other benefits not available through an out-of-state plan. Before investing in any state's 529 plan, you should consult your tax adviser.

If you have questions or need more information, please contact:

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