529 Plans - Tax-Free Savings Accounts for College: 10 Things You Should Know

By Richard F. Roth

A lot of people have established a 529 higher education savings plan for their children or grandchildren. However, many people still have not done so. Others do not fully understand the advantages of 529 plans. Some worry about what would happen if their child or grandchild does not attend college or chooses to attend college in another state. The following is a list of basic facts you should know about 529 plans:

1. You can establish a 529 college savings plan through the State of Michigan website: www.misaves.com or with any financial institution. You can also establish a 529 plan with almost any other state in the U.S. You may want to compare charges and fees for the Michigan Education Savings Program versus those expenses with a financial institution or another state.
2. Although your contribution to the 529 plan will not be deductible for federal income tax purposes, Michigan and other states may give a partial state income tax credit which can reduce your state income taxes. Contributions may be as low as $25.00.

3. Withdrawals from the 529 plan will be tax-free, including all earnings on the amount withdrawn, as long as the funds are used for the beneficiary's college expenses.
4. College expenses which qualify for tax-free treatment include tuition and related fees, room and board, books, supplies and equipment, computer and necessary software and internet access costs. Funds can be used at any accredited university, college or vocational school – nationwide and many abroad.
5. In order to calculate the amount of expenses which will be tax-free, a beneficiary must deduct the educational costs which are covered by scholarships or grants.
6. Withdrawals in excess of the college expenses will be taxable to the recipient and, depending on the circumstances, will be subject to a 10%

penalty tax.

7. One great advantage of a 529 plan is that the plan may be transferred to a beneficiary's sibling or cousin. Therefore, if your child does not go to college, then his or her brother, sister or cousin is eligible to use the funds. Further, you can use the funds if you decide to go back to school, or your child could use the funds for his or her children (your grandchildren).
8. If there is a chance that your beneficiary may qualify for some tuition assistance, a grant or other aid, then you may wish to consider whether you or your child should be the account holder. In certain cases, the amount in the 529 plan may be used to determine whether the beneficiary qualifies for financial assistance.
9. Only the account owner may make a withdrawal from the 529 plan. Checks can be payable to the account holder or to the account beneficiary. The process is relatively simple and may be done online. If the funds are to be used to pay the account beneficiary's college expenses, it is recommended that the check be made payable to the account beneficiary. If the account holder keeps the withdrawal for himself or herself, it is recommended that the check be made payable to the account owner. By "following the money," the tax consequences, if any, may be easier to determine.
10. In determining the overall amount to fund a 529 plan, you should keep in mind that college may be dramatically different in 15 to 20 years. Although the University of Michigan and Michigan State University will still be there, more and more students are seeking undergraduate and graduate degrees online at significantly reduced costs. If your 529 plan is over-funded, you can always get your money back; however, your earnings will be taxed and you will be socked with a 10% penalty fee.

In summary, a 529 plan is easy to set up, easy to manage and an easy way to pay college expenses with tax-free dollars.

Read the Michigan Chronicle Article