

Back to School: 529 College Savings Plan

By Gary Altman

I thought it might benefit our readers to review the significant change to the 529 College Savings Plans as kids go off to college this month. As a grandfather and an uncle, I contribute to several plans to help with college education for the next generation.

A 529 Plan allows families or parents to save money for college tax-free. All the States have plans they manage while the investment accounts allow the money to grow tax-free. There are also short-term rewards because some states allow a deduction or credit on state income tax. Once a child goes to college, vocational school, or some further education, parents or family members can take the 529 Plan money and apply towards college to defray costs or since 2019 help repay student loans. Parents are often the largest contributors to these plans, but grandparents are the second largest.

Recent changes to the IRS Tax Code now allow 529 plans to cover tuition at colleges, universities, and now private elementary and high schools, K-12 education. This change allows parents to put money into these plans and avoid state income tax. It also eliminates any penalty a child would experience from borrowing money or financial aid. All colleges that offer federal need-based financial aid require students to complete the Free Application for Federal Student Aid known as FAFSA. When applying for financial aid the lengthy applications (FAFSA) would ask how much a child receives from non-parent sources such as from a 529 Plan owned by and contributed by a grandparent and then deducted this amount from the student's federal aid eligibility. This made it difficult to use a grandparent-owned 529 Plan to pay for the grandchild's tuition.

Starting with the 2024-2025 school year, changes to the FAFSA will allow grandparent-owned 529 Plans not to affect eligibility for financial aid. Neither the 529 Plan nor the distributions from the 529 Plan to pay for the grandchild's college will count against the grandchild when he or she completes the annual FAFSA application or when applying for financial aid. Grandparents can create, and be the owner of, a 529 Plan for a grandchild, contribute as much as they want or are legally allowed to, and then use the funds in the 529 Plan to pay for the

grandchild's college tuition, with no impact on the grandchild's eligibility for financial aid.

529 Plans offer several advantages to grandparents to include gifting and estate planning benefits. Contributions to 529 plans are completed gifts and are removed from the taxable estate. They are flexible, should a beneficiary decide to not attend college or school, the account owner can change the beneficiary at any time and transfer ownership. Grandparents can control the accounts if something unexpected happens, and they need the account assets.

Be certain to ask about this should you wish to contribute to 529 or able accounts. Ask the attorneys at Altman & Associates.

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