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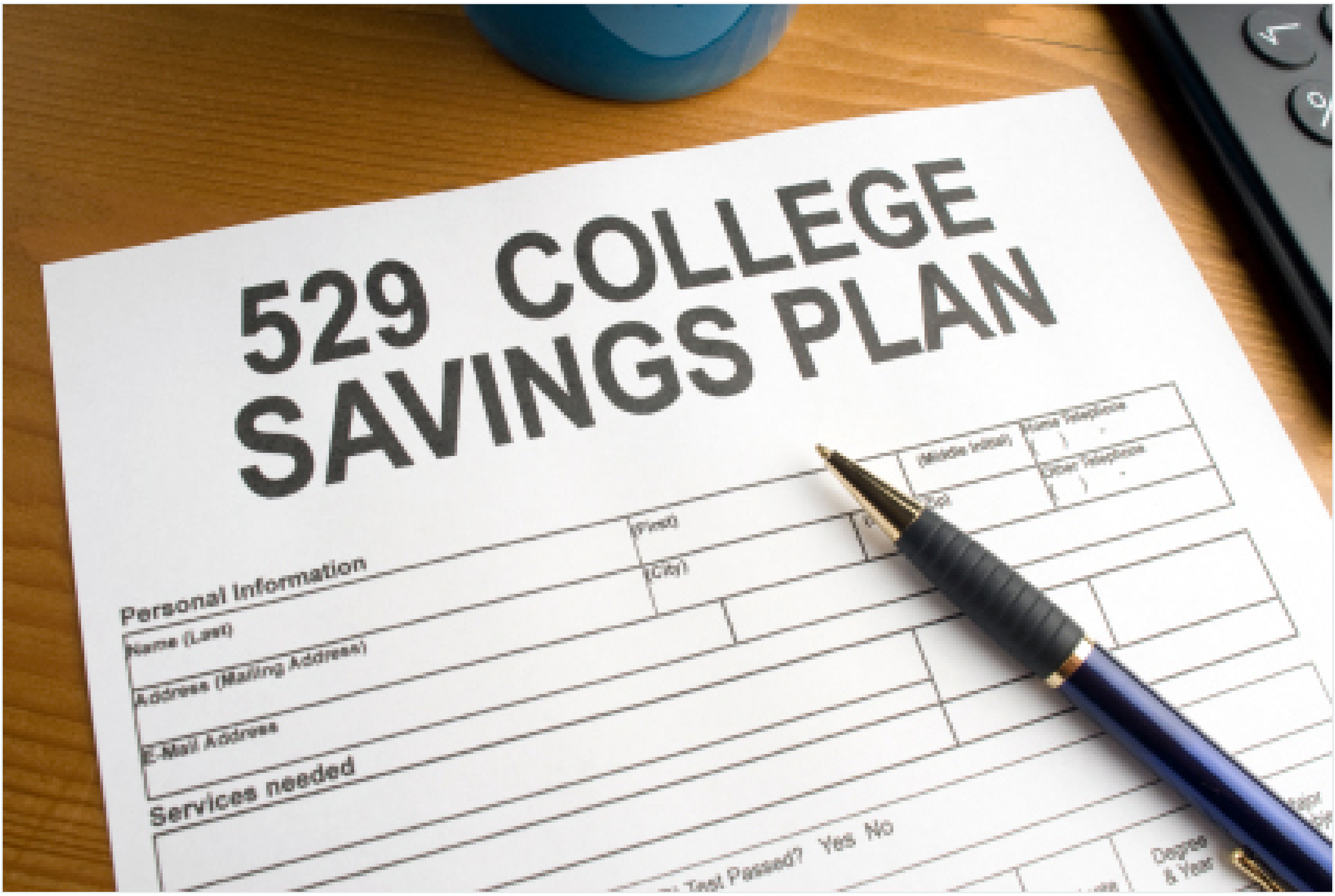
Dec. 21, 2015



College is expensive. Until about twenty years ago, college costs were still high, but many middle and even lower income students were still able to get through a four-year degree program with little or no debt. This was often done through a mix of part-time work, education grants, some family contributions, summer jobs and a lot of Ramen noodles, but it was achievable, especially at state universities.

Even for the millions of Americans who have used student loans, the total amount of

few ways that can help eliminate (or at least reduce) the need for either parents or their children to take on significant debt.

College 529 Savings Plans

Similar to 401(k) retirement accounts, 529 Savings Plans are investment savings accounts that are based on investments in stock, mutual funds or similar markets. Recognized by the IRS starting in 1996, they are overseen by individual states and educational institutions and, therefore, have some variations when it comes to their specifics.

The core intent of the 529 Plans is to allow parents to put after-tax income into an account that will grow and, when a dependent child becomes a student, can be used to pay for qualifying educational expense, such as tuition, room and board, fees, books, computers, supplies and other equipment at accredited colleges. Although it is a post-tax deduction, the earnings on the investment are tax-free.

Parents can set up accounts, but plans can also be added to post-tax payroll deductions by employers, and many states allow non-parents to make contributions to an account, such as for nieces, nephews, non-family members, even for the adult taxpayer him or herself.

Pros:

- Earnings made from the savings contributions are tax-free
- Can be used for a variety of associated expenses
- Plans are transferable
- No income limitations
- High contribution limits ($300,000 or more in most states)
- Can be reclaimed by donor (with penalties)

- Funds in accounts are not counted as part of the donor's gross estate

income tax
- Distributions may be subject to gift tax if exceeding $14,000 per year (check with your tax pro)
- As an investment-based plan, funds are not guaranteed and losses can be incurred. (Some states offer a no-risk option at a very low yield, such as Oklahoma's, with a 1.15 percent rate of interest.)

Pre-Paid Tuition Plans

Pre-paid tuition plans are another option offered by many states that can be used in separately or in conjunction with 529 plans. As the name implies, these plans allow parents to lock-in tuition costs at the rate when they start the plan. This plan would have better cost-saving advantages, therefore, for parents who are starting to save when a child is younger.

These programs vary much more extensively by each state, but generally do qualify for tax benefits when used as intended. Another consideration is the economy. College planning advisor Kevin Campbell recently warned that because states are still trying to balance budget deficits, many are looking at re-tooling their pre-paid college savings plans. For instance, Alabama froze tuition rates at the 2010 level, Colorado no longer accepts new savings accounts, and New Mexico completely ended its pre-paid plan.

"Since 2008, there's been quite a few who have either stopped new enrollment or who have shut down completely and that makes you go, 'I don't know if this is a good plan,'" he said. "Granted, as long as the states stand behind it, they're secure, [but] these days, I don't know that I would recommend it when there are other alternatives."

The Best Tip: Talk to a CPA or tax professional about your family's educational plans

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