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Balance sheet

College Savings Accounts

By Barb Krout

Since the cost of a college education has been rising each year, it is more important than ever to have a tax-savvy college financial plan to help offset some of these expenses. The most popular type of the education saving plans is a qualified tuition plan, also known as a 529 Plan. These plans are sponsored by states, state agencies, or education institutions and are authorized by Section 529 of the IRS tax code. They offer tax free earnings growth and tax-free withdrawals when funds are used to pay for qualified expenses.

Ohio's 529 Plan is called CollegeAdvantage and is sponsored and maintained by the Ohio Tuition Trust Authority. A CollegeAdvantage plan can be opened and maintained with a minimum contribution of \$25 by any U.S. citizen or resident alien, 18 or older, who has a Social Security number or Tax Identification Number and a U.S. street address. The account holder can designate a child, adult or even themselves as the beneficiary. There are no age restrictions as to when you can use the account funds. State of Ohio taxpayers can also benefit by deducting up to \$4,000 in contributions from their Ohio taxable income per beneficiary, per year, with unlimited carryforward of contributions in excess of that amount.

The 2017 tax reform package expanded 529 Plan benefits to include tax-free withdrawals for private, public or religious elementary, middle and high school tuition up to \$10,000 per year. This new law also allows traditional 529 Plan accounts to be rolled into 529 ABLÉ (Achieving a Better Life Experience) accounts without having to pay taxes or be penalized.



There are two options available with the CollegeAdvantage plans. You have the option of the Direct 529 Savings Plan, a do-it-yourself approach where you can choose to invest in ready-made age based portfolios, ready-made risk based portfolios, or something you decide based on your investing preferences, savings goals and risk tolerance. Or you can choose the Advisor 529 Savings Plan. This plan is offered by BlackRock and uses a professional financial advisor and you together choose from a variety of investment options to achieve your college savings goals. Both plans offer tax free earnings, well diverse investment options, and professionally managed funds.

Your investment in a 529 Plan also will affect your EFC (Expected Family Contribution) when filing your FAFSA (Free Application for Federal Student Aid) application with a college or university. If the student is considered a dependent, the account (owned by the parent or the student) is considered to be a parent's asset and will generally be counted at a rate of only 5.64% of its value when used to calculate the EFC. If the student is not a dependent and is the account owner, then the plan is considered a student asset and is factored into the EFC at a higher rate of 20%. In other cases, the account is not used for the calculation for federal financial aid purposes. Some educational institutions may have their own guidelines so always consult with a financial aid professional at the institution offering the program.

Planning for qualified K-12 and college expenses can be complex. Give us a call and let us help you devise a plan that works best for your individual needs.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision. You cannot rely upon this information for avoiding tax penalties.