SAGE VIEW

COLLEGE SAVINGS 529 PLANS

Understanding tax and other benefits

WHAT IS A 529 PLAN?

There are two types of 529 Plans

1. 529 College Savings Plans are the most common type. Investments grow tax-free and can be withdrawn tax-free for educational expenses such as tuition, room and board and required text books.

2. 529 Prepaid Loans let you prepay part or all of an in-state tuition, locking in the tuition at the time of payment.

A 529 College Savings Plan is a state-sponsored investment plan that enables an individual to save money for a beneficiary and pay for education expenses.

- Each state offers at least one 529 plan, but you do not have to invest in your own state's plan
- However, some states offer residents a state tax deduction for investing in the state plan, versus an outside plan.

Source: https://finaid.org/savings/state529deductions/

HOW IT WORKS

Tax advantages are one of the biggest benefits to a 529 plan

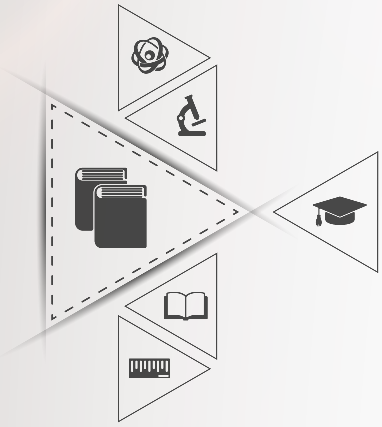
Tax deductions
Many (but not all) states let you deduct your 529 plan contributions on your state income tax return, up to your state's limit.

Tax-deferred growth
Your earnings will be deferred from federal and usually state taxes.

Tax-free withdrawals
You won't be taxed on the money you withdraw for qualified education expenses.

K-12 tuition of up to $10,000 per student, per year at a public, private, or religious school can also be treated as a qualified education expense with respect to the federal tax benefit. State tax treatment of K-12 withdrawals, however, is determined by the state where the taxpayer files state income tax.

QUALIFIED EDUCATION EXPENSES



TIP: you can change the beneficiary on the account at any time (i.e. if the first child chooses not to attend college, you can change the account beneficiary so the funds go toward paying for a younger sibling's education instead.)

You can use the money for qualified higher-education expenses, including:

- Tuition at a college, university, trade school, vocational school
- Expenses necessary to participate in an apprenticeship program
- Room and board
- Fees
- Books
- Supplies
- Equipment
- Computer hardware and software
- Internet access and related services

What if you withdraw the money for expenses that are not covered?
If you withdraw the funds for expenses not covered, it will cost you. Earnings withdrawn for non-qualified expenses are subject to a 10% penalty and ordinary income taxes. There is no penalty on the principal*.

However, if the beneficiary receives a scholarship, you can withdraw funds equal to the amount awarded. The earnings will be subject to taxes but there will be no additional penalty.

*NerdWallet