



Putting Clients First

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National 529 College Savings Plan Day

In honor of today, May 29th, we felt our communication was best served discussing 529 college savings plans, their expanded usage, and role in holistic financial planning. Per the attached white paper "Is a 529 Plan the Best Way to Save for College" the consensus continues to be yes – 529 plans offer the most benefits when saving for higher education. The most significant benefit of a 529 plan is its tax treatment – and this can be further broken down into the contributions, earnings, and distributions of an account. As referenced in the attached "State Tax Deductions 529 Plan Contributions" the majority of states that have a state income tax offer a state income tax deduction or tax credit when a resident establishes and funds a 529 with the state's plan. Sorry NJ residents you didn't make the cut on this one! Furthermore, any subsequent earnings on the contributions are tax deferred and distributions are tax free provided they are used to pay for qualified higher education expenses.

It is also important to note that the ability to use 529 college savings plan dollars has increased in the last couple of years. The Tax Cuts and Jobs Act of 2017 allows 529 college savings plans to include K-12 tuition in addition to higher education expenses. Please note the distribution cap for K-12 is \$10,000 per year per child. The SECURE Act signed late in 2019 permits qualified education loan repayments and the ability to use dollars towards a registered apprenticeship program instead of a college. Please see the attached for more details but it's readily apparent that recent legislation has expanded the use of 529 college savings plans.

Lastly, 529 plans can be an effective and thoughtful gift and estate tax planning tool. 529 contributions are considered a gift of present interest which is an important distinction, thus, qualifying for the annual gift tax exclusion (\$15,000 in 2020). In addition, 529 plans allow a donor to "front-load" five annual exclusions into one initial contribution (\$75,000) per beneficiary without incurring any gift tax liability. As an example, for grandparents and family members looking to reduce the size of their estate due to potential estate tax liability this type of planning warrants further consideration.

Like anything else a 529 college savings plan is not a one size fits all and will not be suitable for every client. As always, we're to help and best wishes to you and your family in these interesting and challenging times.

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