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Guide to Education Tax Savings

Updated for The Further Consolidated Appropriations Act of 2020 and the Consolidated Appropriation Act of 2021 (CAA)

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Accountants and Advisors

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Anchin, Block & Anchin LLP, Accountants and Advisors, Guide to Education Tax Savings, July 2021.
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About the Authors

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Introduction

Anchin, Block & Anchin LLP is pleased to present this compilation of articles titled “Guide to Education Tax Savings.”

The cost of education continues to be one of the most daunting expenses parents face when raising children. Congress has heard the voter’s cry and keeps expanding education tax incentives to make it easier to save and pay for education costs. The articles in this book explain the various alternatives one can consider to either save or pay for education costs of one’s family.

The topics contained in this booklet involve sophisticated financial and tax planning concepts and, due to the dynamic nature of our tax law, are time- sensitive. Before applying any of these concepts to your situation, we recommend that you contact us, since the information may or may not be applicable to you and may have been impacted by law changes subsequent to the initial publication of each article. We will be able to advise you in the context of your specific circumstances.

Please contact us for future updates or if you have any questions.

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Tuition Deductions, Credits and Exemptions

The Economic Growth and Tax Relief Reconciliation Act of 2001 created a federal deduction for college tuition and certain related expenses, currently at $4,000 from Adjusted Gross Income (AGI) (i.e. you do not have to itemize deductions) for you, your spouse and any person that can be claimed as a dependent on your tax return. However, the deduction is reduced to $2,000 for singles where modified AGI exceeds $65,000 and in case of joint returns, $130,000 and eliminated if your modified AGI is larger than $80,000 for singles and in the case of joint returns $160,000. The deduction is coordinated with distributions from Coverdell Savings Accounts (formerly known as Education IRAs) Qualified Tuition Savings Accounts (Section 529 plans), and credits for Hope Scholarship and Lifetime Learning to prevent a double tax benefit. Also, if one can be claimed as a dependent on another's tax return, they are not eligible to take the deduction. The above-the-line deduction for qualified tuition and related expenses expired at the end of 2017 under the Bipartisan Budget Act of 2018. It was extended retroactively to 2018 as well as 2019 and 2020 under the Further Consolidated Appropriations Act of 2020. However, this deduction is no longer available after 2020 as it did not get extended under the CAA of 2021.

<u>STATE RULES</u>

New York State offers a choice of taking an itemized deduction or a refundable credit for tuition. The deduction is limited to $10,000 per year for a taxpayer, spouse or dependent. However, there is no limit on the number of eligible students that you can claim. The eligible student does not have to be entered in a degree program or attend full-time for the expenses to qualify. Tuition for graduate school does not qualify for the credit/deduction. Generally, qualified tuition expenses paid are treated as paid by the student regardless if someone other than the eligible student pays for those expenses. In order to claim the deduction for qualified education expenses, you must claim the eligible student as a dependent. Therefore, if you claim the student as a dependent, you are treated as having paid expenses that were paid from the student's earnings, gifts, inheritances or savings. Expenses paid from a qualified state tuition program (Section 529 Plan) are considered to be payments of qualified college tuition expenses for purposes of this credit. In addition, if you or the eligible student claim a federal deduction or credit for qualified tuition expenses, you can still use these expenses to compute this credit. Alternatively, in lieu of taking the deduction, taxpayer's can elect to take a credit of 4% of the qualified tuition, which allows a maximum tuition credit of $400 for each eligible student. If the credit exceeds your tax for the year, the excess credit is refunded without interest.

New York State offers the opportunity to deduct the same tuition payment three times. First, make a $4,000 contribution to a New York State 529 plan which allows a deduction in the same amount. Immediately distribute the $4,000 from the 529 Plan to pay tuition. The $4,000[1] is subtracted from Federal income as a tuition deduction. New York State starts with Federal income and modifies for New York State adjustments. However, there is no modification for the Federal tuition deduction. In addition, deduct the $4,000 contribution to the New York State 529 Plan as a NYS modification to Federal Adjusted Gross Income. Finally, New York

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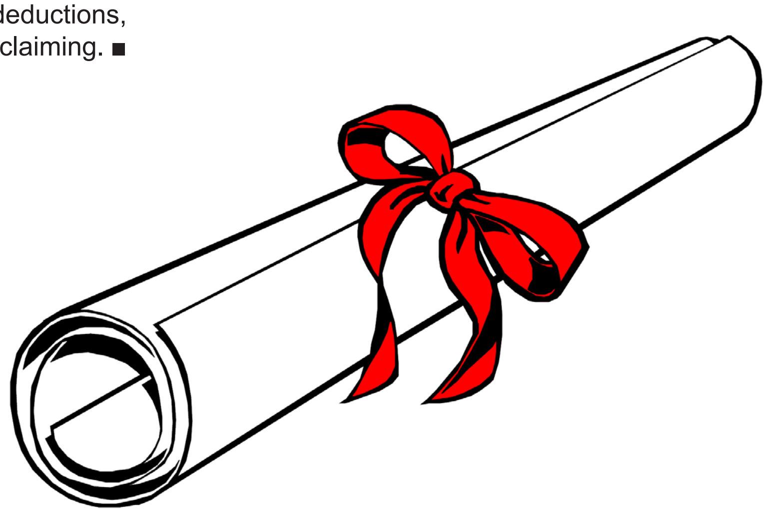
State allows an itemized deduction or tax credit on these same funds used to take the Federal tuition deduction. Thus, the Federal tuition deduction, 529 contribution deduction and New York State itemized tuition deduction are essentially all derived from the same payment. ($12,000 of deductions on one $4,000 payment).

In addition to the college tuition credit/itemized deductions, New York also allows a $5,000 deduction from gross income ($10,000 joint) for contributions to the New York State Section 529 Plan. Connecticut also allows a $5,000 ($10,000 joint) deduction from taxable income for contributions to the Connecticut Section 529 Plan. Pennsylvania allows a $14,000 deduction for contributions to any Section 529 Plan.

New Jersey allows an extra dependency exemption for all dependents attending college. Other states also offer benefits for dependents attending college. Check with your tax advisor as to which deductions, credits and/or exemptions you should be claiming. ■



1 Technically, the Federal tuition deduction cannot be taken on funds distributed from a 529 Plan but only if the taxpayer does not report the earnings on the 529 account. If the $4,000 is only in the account for a few days nominal earnings would accrue and need to be reported as taxable income.

Education Credits - American Opportunity, (Hope Scholarship Credits) and Lifetime Learning Credits

In 1997, Congress passed certain tax breaks for education starting in 1998. Two of the most lucrative, the Hope Scholarship (renamed American Opportunity tax credit) and Lifetime Learning credits were thought to be utilizable only by lower income families based on adjusted gross income eligibility requirements. But, in 2002, the Internal Revenue Service finalized proposed regulations, which allow upper income families to tweak the rules and in effect avoid the adjusted gross income eligibility requirements.

First, let's describe the credits and how they work. The Hope credit is a tax credit to help offset the cost of college tuition. The Hope credit was worth up to $1,800 per year per student calculated as 100% of the first $1,200 of eligible expenses per student and 50% of the next $1,200. In 2009, the Hope credit was replaced by the American Opportunity Tax credit and increased to $2,500 (100% of first $2,000 and 25% of the next $2,000) for qualified tuition and related expenses for each eligible student. If no taxes are owed, 40% of the credit may be refundable[1], which means a family could receive up to $1,000 from the government. The American Opportunity Tax credit was extended permanently by the Protecting Americans from Tax Hikes Act of 2015. The Lifetime Learning credit is also a tax credit to help offset the cost of college tuition, but is limited to $2,000 per year per return (not per student). Unlike the American Opportunity Tax Credit, the Lifetime Learning credit is nonrefundable. If you elect filing as married filing separately, you are not entitled to claim any education credits.

Since taxpayers cannot take both credits on the same student in the same year, it is important to understand how and when taxpayers can take the credits to maximize their use. Starting in 2009 the American Opportunity Tax Credit is allowed for four years of undergraduate study. The Lifetime Learning credit, on the other hand, is available to any student taking any level of higher education courses (i.e. - leading to a degree or taking a course to improve job skills) at an eligible institution.[2] As such, taxpayers should always elect to take the American Opportunity Tax credit (Hope credit for Midwestern Disaster area) whenever they are eligible before taking the Lifetime Learning credit.

Both the American Opportunity credit and Lifetime Learning credit are subject to a phaseout when modified adjusted gross income (MAGI) exceeds certain threshold amounts. The American Opportunity credit is phased out if MAGI exceed $80,000 single or $160,000 joint for 2020, and it becomes eliminated if MAGI exceed $90,000 single or $180,000 joint. The Lifetime Learning credit on the other hand has a substantially lower phaseout threshold; it is phased out if MAGI exceed $59,000 single or $118,000 joint for 2020, and it becomes eliminated if MAGI exceed $69,000 single or $138,000 joint. It would appear upper income families cannot avail themselves of these credits. However, in 2002 the IRS finalized regulations allowing upper income families to also benefit from these credits provided such taxpayers give up a benefit which may be of limited value. Such benefit is the dependency exemption which, at $4,050 in 2017 per student, reduces taxable income by a hefty amount. However, for tax years beginning after December 31, 2017, the personal exemption will be suspended. The suspension will go on eight years until taxable year ending December 31, 2025, under the Tax Cuts and Jobs Act.

Therefore, by parents giving up what may be a small tax benefit in 2017 and no benefit in subsequent years, the student is eligible to claim these credits on his or her own tax returns[3]. The students usually have some taxable income from investments as well

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as from part- time and/or summer employment. The federal tax on this income can be reduced if not entirely eliminated by taking these credits against this tax. In addition, with the kiddie tax applicability increased to age 19 (age 24 for full time students), these credits can mitigate the tax. The family as a whole has more cash flow as the family tax burden has been diminished.

What's even better is that a third party[4] can pay the tuition. For example, an excellent estate planning technique is to have grandparents pay tuition for their grandchildren. In addition to the pride and esteem felt by the grandparents for giving their grandchildren a truly beneficial gift, they will also be helping their children by easing their cash flow. What's more, the tuition paid is not considered a taxable gift regardless of the amount (provided it is only for qualified tuition and paid directly to the institution). This facilitates lifetime estate planning as it passes additional amounts to the next generation(s) without a corresponding gift tax cost. In addition, New York State deems this payment as paid by the student for purposes of taking a New York State itemized deduction or 4% credit. As such, the student or the parent if the student is a dependent may claim this benefit, even though paid by the grandparent.

Due to the complexity of the tax code, one cannot simply say whether foregoing the dependency exemption and having the student take the credits is more tax efficient than taking the exemption and foregoing the credit. Your tax advisor will have to run the numbers to determine which will be of more benefit to you.

In addition, since these credits first became effective in 1998, if you didn't take advantage of them, you can go back three years and amend your tax returns to take advantage of the credits if the tax benefit is worthwhile to pursue. ■

1 The credit is not refundable if the taxpayer claiming the credit can be claimed as a dependent.
2 An eligible educational institution is any institution, college, university or vocational school, or other post-secondary educational institution that is eligible to participate in a student financial aid program under Title IV of Higher Education Act of 1965.
3 However, the student is still not eligible to take his/her own dependency exemption even though the parents forgo the deduction on their own return. Taxpayers forgo claiming the dependent exemption so that the child can take the education credits might receive a notice from New York State if dependent exemptions do not match up with the exemptions claimed on the federal tax return. To avoid the assessment, taxpayers could simply include a response explaining the circumstance.
4 The Internal Revenue Service deems the tuition is paid by the student even though it is paid by a third party.

College Tuition Savings Accounts "529 Plans"

With the average annual cost of a four-year private institution exceeding $53,980, parents will be pleased with the federal government's incentives to save on taxes while saving for college tuition. The incentives are in coordination with state programs which allow federal and state taxes on the earnings on the contributions to be tax-free if used for qualified higher education expenses (QHEE). These QHEE include tuition in just about any college or university in the country and over 500 foreign institutions. QHEE also includes room and board, books, supplies and fees.

For taxable years beginning after December 31, 2017, the definition of QHEE has been expanded to include tuition expenses for public, private or religious schools from kindergarten through 12th Grade, under the Tax Cuts and Jobs Act of 2017. Also, families with a disabled child are allowed to rollover the existing funds in 529 plans to a 529 ABLE (Achieving a Better Life Experience) with the same beneficiary or a member of the beneficiary's family tax free. The Setting Every Community Up for Retirement Enhancement (SECURE) Act, which was attached to the federal Further Consolidated Appropriations Act of 2020 signed into law on December 20, 2019 expands the benefits of 529 college savings plans, including adding student loan repayment and cost of apprenticeship programs as qualified expenses. Please see article on "Interest deduction on education loans" for details.

The above sounds like a "no-brainer." It appears everyone should be running out to open an account. However, there really is no set answer as to whether you should or should not open these accounts. The answer is based on your specific wants and needs as well as your overall sophistication with choosing investment products. Below is a list of advantages and disadvantages to be taken into account when deciding whether a contribution to a college tuition savings plan is right for you, as well as a list of possible alternatives:

ADVANTAGES:
(Please see "Disadvantages" on next page.)

1. Every state except Wyoming and Washington participates, however, not all states allow non-residents to participate. See chart for specific details on each state's program.

2. Certain states allow a deduction for contributions to the program. States like New Jersey have conformed with the Tax Cuts and Jobs Act of 2017 to include the K-12 tuition as a qualified expense. However, there are still many other states that have not (see disadvantage #2).

3. Earnings grow federally tax-free[1] and for most states tax-exempt if distributions are utilized for qualified education expenses.

4. The contribution to the account is considered a completed gift and hence is removed from your estate.

5. You can make a $75,000[2] ($150,000 joint) contribution to a beneficiary's account in 2021 and elect to have the gift count as being made over 5 years. (If you die within the 5 years, a prorated portion is thrown back into your estate). This will utilize your annual exclusion for the beneficiary for 5 years. (See article on 529 Plan Strategies).

6. The process is relatively simple. The funds invested will be managed for you and the beneficiary has no control of the funds.

7. An account may be rolled over into a "Member of the Family"[3] account if the original beneficiary will not be using the funds for a qualified purpose.

8. You have control of the account even though it is considered a completed gift.

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You can use the money for your own purposes (however, see disadvantage #2).

9. The IRS permits investment selection to be changed semi-annually[4] or upon a change in the designated beneficiary.

10. By signing up with Upromise.com, major businesses will make contributions to your children's accounts when you shop with such companies. (See article on Upromise.com)

11. An American Opportunity Lifetime Learning Credit or tuition and fees deduction can be claimed in the same year the beneficiary takes a tax-free distribution from a 529 Plan, as long as the same expenses are not used for both benefits. In other words, the beneficiary must reduce the qualified education expenses by the expenses taken into account in determining the credit or deductions when calculating the taxable portion of the earnings[5].

DISADVANTAGES:

1. The contribution is considered a gift of a present interest eligible for annual exclusion. If gifts are already being made (i.e. - Life Insurance Trusts; Uniform Gifts for Minors Accounts; Family Limited Partnerships) this becomes a very expensive vehicle to fund education. Also see article on 529 Plan Strategies regarding GST ramifications.

2. Distributions not used for qualified expenses are taxable to you or the beneficiary depending on who receives the money (including accumulated contributions when deductible (state only).The distributions attributable to the investment income are also subject to a 10% federal surtax[6]. Some states charge a penalty in addition to the federal surtax. New York State would not consider K-12 distributions as well as student loan repayment and expenses for apprenticeship programs to be qualified distributions under its statutes; any state benefits that had accrued on contributions would be recaptured.

3. While many choices are available, they are limited to mutual funds, bond funds or certificates of deposits. Individual stocks or bonds cannot be purchased (See chart on pages 21-27).

4. Investment allocation may depend on the beneficiary's age and state program. Montana only invests in certificate of deposits although they are pegged to the college inflation rate. New York offers age-based options that can be allocated based on your risk tolerance, whether its conservative, moderate or aggressive. New York's basic allocation is shown in the chart below[7].

5. Custodial/Advisory fees imposed by the Custodian on setting up, maintaining and withdrawing from the account range annually from none to 5.75% ($575 per $10,000) of the account balance depending on the state.

6. While college savings plan balances will not be used in the calculation of certain state's financial aid programs, other state programs as well as private, federal and school financial aid programs may consider these accounts in calculating assistance.

7. Cumulative contributions to any one beneficiary from any and all sources are limited depending on which state plan you choose.

ALTERNATIVES:

1. Gifts made under the Uniform Gifts or Transfers to Minors Act invested in long-term growth stocks will result in a tax deferral and a low, effective tax rate on the distribution without the limitation on use. The main disadvantage is "Junior" gets his hands on the money at age of maturity (depending on state 18 or 21) and buys a Porsche.

2. Family limited partnership. This vehicle has all the benefits of the Uniform Gifts or Transfers to Minors Act account plus control of the beneficiaries withdrawal rights. In addition, discounts can be taken on the gifts to allow larger gifts than the annual exclusion. The primary disadvantage is the cost of administering the partnership. In addition, a recent court case calls into question utilizing the annual exclusions on gifts to family limited partnerships. (See attached comparison).

3. Grandparents or parents pay the child's tuition directly. These payments do not count toward the annual exclusion and allow indirect gifts to the child, which reduces the donor's estate. The disadvantage is the grandparent must be alive at the time to pay the tuition. However, see alternatives to prepaid tuition plans at the end of the Prepaid Tuition Plan article. ■

Age of Beneficiary	Conservative Option	Moderate Option	Aggressive Option
5 or Younger	50% Stocks 50% Bonds	75% Stocks 25% Bonds	100% Stocks
6 through 10	25% Stocks 75% Bonds	50% Stocks 50% Bonds	75% Stocks 25% Bonds
11 through 15	75% Bonds 25% ST - Investment	25% Stocks 75% Bonds	50% Stocks 50% Bonds
16 through 18	75% Bonds 25% ST - Investment	75% Bonds 25% ST - Investment	25% Stocks 75% Bonds
19 or Older	100% ST - Investment	75% Bonds 25% ST - Investment	75% Bonds 25% ST - Investment

1 Pension protection Act of 2006 eliminated Sunset Provision in 2010, as such, if used for qualified purpose earnings are tax-free.
2 Plan earnings may also limit overall contributions. (See chart).
3 Member of the Family generally means spouse, sons, daughters, brothers, sisters, nephews, nieces, first cousins and any spouse of those individuals
4 This change has been effective since 2009 and was codified in 2014.
5 Under the Protecting Americans from Tax Hikes Act of 2015, accounts with same owner and same beneficiary are no longer required to be aggregated for the purposes of calculating the earnings portions of a distribution. Earnings are calculated for each account separately.
6 There are four exceptions to this 10% surtax: 1) Withdrawals made on account of death or disability of the student; 2) Withdrawals made to the extent they do not exceed a scholarship received by the student; 3) A transfer of a 529 account from one family member to another; and 4) a transfer from one 529 state plan to another for the same student.
7 New York is now also allowing much more varied investment options at the owner's request. New York's 529 College Savings Program Direct Plan offers a comprehensive lineup of 16 investment options - three age-based options (conservative, moderate and aggressive), 5 multi-fund portfolios, 7 individual index-fund portfolios, and the interest Accumulation Portfolio. You may choose up to 5 investment options per account. As for the New York's 529 College Savings Program Advisor Plan, it offers 9 age-based options, 6 multi-fund portfolios with varying risk tolerances and 17 individual-fund portfolios.

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529 Plan Strategies

If you have decided to contribute to a 529 plan, the next step is to choose a plan offered by one of the forty-nine states, the District of Columbia or a private college plan. Listed below are strategies to consider in picking a 529 plan.

1. Always check out your state of residence plan. Residents usually enjoy greater benefits such as receiving a deduction on their state[1] returns (34 states currently allow deductions) or lower fees charged by the investment adviser. Depending on how much is being contributed, and the state limitation placed on deductibility, one can usually enjoy the deduction afforded by contributing to your resident state as well as the portfolio diversification of another state's plan (see chart for those states that allow non-resident participation). For example, Utah allows 100% investment in an Equity Fund. Montana invests in certificate of deposits, the investment returns of which are pegged to the college inflation rate. Montana permits $6,000 (joint) deduction on its state returns for contributions. By contributing $4,000 to Utah's plan and $6,000 to Montana's, a Montana resident will have created an investment mix of 40% equity and 60% cash (i.e. - money market fund), and received the maximum annual deduction.

2. If you are a resident of a state that allows a deduction for contributions to their 529 plans be aware that certain states such as New York allow you to withdraw funds from your account almost immediately after contribution. This allows you to receive a state income tax deduction for payment of current college tuition expenses simply by utilizing the 529 Plan as a conduit to paying the tuition.

3. If choosing a specific state program because of the investment advisor, be wary of sales loads and other fees. Also, each state program regulates the fees that can be charged so that the same investment in 2 different state plans managed by the same advisor may have different investment results due to the fees charged.

4. Morningstar has been rating 529 plans since 2011. Morningstar assigned these programs Ratings of Gold, Silver, or Bronze based on these four key pillars: Process, People, Parent, and Price. Illinois' Bright Start College Savings, and Utah's my529 continue to distinguish themselves and earn the gold ratings, and the third plan that earns a gold rating is Michigan's Education Savings Program which was upgraded from silver to gold in 2020. Both California's ScholarShare College Savings Plan and Virginia's Invest529 were downgraded to silver in 2020 from gold. New York's direct-sold 529 Program continues to hold onto its silver rating and its advisor-sold 529 Program remains at Bronze. The other silver-rated 529 Plans include Pennsylvania's Pennsylvania 529 Investment Plan and Maryland's MD Sen Edward J. Kasemeyer College Investment Plan. New York's direct-sold 529 Program continues to get a silver rating and its advisor-sold 529 Program remains at Bronze. Among the other programs that earned the Bronze ratings are Connecticut's Higher Education Trust and Pennsylvania's 529 Investment Plan and Delaware's Delaware College Investment Plan. Eighteen plans earned Neutral ratings and eight programs in 2020 earned negative ratings, New Jersey's Franklin Templeton

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529 College Savings Plan and NJBEST 529 College Savings Plan are two of them.

5. When contributing more than $15,000 in any one year, to take advantage of tax-free compounding be mindful that you are borrowing on your annual gift tax exclusion for that particular beneficiary over the next 4 years[2]. If the donor dies within the five year period, this can become very expensive if the contributor has already utilized his/her Estate and Generation Skipping Tax (GST) exemption. In such a case, the prorated portion added back to the contributor's estate is subject to both Estate and Generation Skipping Tax with a combined Federal tax rate currently of 80%. Also, state deductions will only be allowed for the first year instead of five. Under the Tax Cuts and Jobs Act of 2017, the estate and gift tax exemptions will double for gifts made after December 31, 2017 and before January 1, 2026. The basic exclusion amount will increase from $5 million to $10 million. The $10 million amount is indexed for inflation occurring after 2011. In 2020, the inflation adjusted exemption amount is $11,580,000. The exemption is scheduled to increase in 2021 to $11,700,000.

6. The account owner (contributor) remains in total control of the account. If the beneficiary doesn't go to college, the account owner can roll over the account to another beneficiary, who is a member of the family[3], or simply take the money back[4]. If distributing funds for a non- qualified purpose, plan who should receive the funds, the account owner or the beneficiary to possibly lower the overall family tax burden.

7. When qualified distributions are taken, coordinate the amounts distributed with payments eligible to take the American Opportunity Tax Credit and Lifetime Learning Credits. This will allow the amount left in the 529 plan to continue to earn tax-free income while still lowering overall college costs.

8. Sign up at Upromise.com (See next article). Your child's 529 plan gets additional contributions when you shop through the Upromise online mall and when you dine at participating Upromise restaurants. Get friends and relatives to sign up and multiply your savings.

9. Rolling over accounts from one state to another may be deemed a contribution (i.e.- New York) and as such eligible for an income tax deduction. Conversely, a rollover from, for example, New York to another state may require recapture of previous tax deductions taken.

10. Rollover custodial accounts. Since earnings on 529 plans are now tax-free for federal and most state purposes if used for qualified expenses, one might wish to convert a Uniform Gifts or Trust for Minors Act Custodial Account into a 529 plan. While this can be done, be aware that tax will be due on any appreciated positions held in the account that are required to be liquidated (only cash can be contributed to a 529 plan). In addition, the 529 plan will be owned by the child, meaning when the child reaches 18 or 21 depending on the state, they will have full access to the funds. For this reason, any future contributions by parents and/or grandparents should be set up in a separate account. One can also transfer a Coverdell Education Savings Account[5] (formerly Education IRA) to a 529 plan. The transfer is considered a qualifying distribution and will not trigger a tax.

1 For example, New York allows a $5,000 single/$10,000 joint deduction for contributions to New York's plan.
2 The annual gift exclusion is $15,000 in 2018. It remains the same for the 2021 tax year.
3 Member of the family generally means spouse, sons, daughters, brothers, sisters, nephews, nieces, first cousins and any spouse of those individuals.
4 Subject to 10% penalty and income tax on the earnings.
5 See article on Coverdell Education Savings Accounts

11. A 10% federal penalty tax plus applicable income taxes is applied to non-qualified withdrawals as well as state and local income taxes. In addition, some states also assess a penalty meaning account owners could get hit twice with both a federal and state penalty. One way of avoiding this penalty may be to rollover the account into another state plan that has eliminated the penalty before taking the non-qualified withdrawal. New York, however, would require recapture of all previous deductions on the transfer to another state plan. ■

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Rewards Programs and 529 Plans
A Different Way To Save

Everybody is familiar with earning frequent flier miles by simply using a credit card. Well, imagine, instead of earning miles by using a credit card, cash goes into an account for your kids and earns income tax-free as long as the kids use it for their college education. Now add this to the ability to include grandparents, aunts, uncles, even friends so that all their spending earns cash contributions to your kids' accounts.

A dream? No, a promise! More specifically "Upromise" a different way to save. You earn cash-back rewards either by using the Upromise Mastercard, shopping through the Upromise online mall, or dining at a participating Upromise restaurant. The more you, your family and friends spend, the more that is put into your kids' 529 accounts. As long as the kids use this account for college the earnings grow tax-free. Upromise believes a typical family network (parents, grandparents) can save more than $20,000 over a 15 year period. ■

(See attached for more details.)

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UPROMISE

WHO CAN JOIN?	WAYS TO SAVE	PARTICIPATING VENDORS	MINIMUM NEEDED TO TRANSFER TO 529 SAVINGS ACCOUNT	WEBSITE	JOIN THIS PROGRAM IF…
You can save for your child, a relative or even your friend's child. You can also save for your own education, regardless of age. Family and friends can help your family save for college by opening their own Upromise account and directing their earnings to your student's 529 College Savings Plan account or college savings account.	There are currently 3 ways to earn through Upromise. 1. Upromise Mastercard - Earn 1.25% cash back on every eligible purchase. Upromise Round Up lets you round up your purchases to the nearest dollar so you can earn more cash back toward college savings. Plus, get a 15% bonus on your Upromise Mastercard earnings when you link your Upromise Account to an eligible 529 College Savings Plan account. You can earn a total of 5% when you use your Upromise Mastercard on eligible purchases when you dine at participating Upromise restaurants. 2. Online Shopping - Shop through the Upromise online mall and earn from hundreds of online retailers 3. Restaurants - Use your registered credit or debit cards to earn at approximately 10,000 restaurants nationwide As a Upromise member, you are eligible to earn 2.5% on your total bill, including tax and tip. It is not necessary to provide your credit card information to start earning from shopping online through Upromise. However, registering your current credit and/or debit cards allows you to earn when dining at participating restaurants.	1,000+ online stores 10,000+ participating restaurants	Upromise initiates transfers for all eligible Upromise members during the first week of each month. To be an eligible member, you need to have a linked 529 College Savings Plan account or a checking/savings account in a Active status and have an earned balance equal to or greater than your minimum transfer requirement. Generally, it will be $10 per linked checking/savings account or $50 per account if you have a 529 College Savings Plan account linked.	www.upromise.com	You frequently use Your credit cards when shopping online or in stores. You don't mind registering your credit cards online. You want to save more when you sign up for the Upromise Mastercard.

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Comparison of College Savings Account (529 Plan) with Family Limited Partnership as a Gift-Giving Tool

Grandparents want to give a gift to grandchild. The grandchild may not necessarily go to college. What is the most tax efficient way to fund the gift, the College Savings Account (529 Plan) or the Family Limited Partnership?

Discussion:
If the grandchild does not go to college the better choice appears to be the Family Limited Partnership. This is because of the ability to discount gifts[1] made with Family Limited Partnership Interests. With the College Savings Account the grandparents lay out additional gifts of approximately $13,231 in order to have the grandchild receive the same $217,186 as in using the Family Limited Partnership.

Starting in 2007, if the grandchild does go to college, federal income tax on earnings from the College Savings Account will be eliminated. This results in savings of approximately $34,694 over using the Family Limited Partnership. It should be noted that state taxes have been left out of the above example. However, if the grandchild does go to college the College Savings Account earnings will usually be state tax-free, and in certain states income tax deductions can be generated, which increases the overall benefit of this alternative.

Comparison:

	College Savings Account (529 Plan)		Family Limited Partnership
Year	No College	College	25% Discount
1	$140,000	$140,000	$37,333
2	147,000	147,000	76,533
3	154,350	154,350	117,692
4	162,068	162,068	160,910
5	170,171	170,171	181,086
6	208,079	178,679	190,141
7	225,512	187,613	199,648
8	236,788	196,994	209,630
9	248,627	206,844	220,112
10	261,058	217,186	231,117
Income Tax	(43,873)	None	(13,931)
	217,186	217,186	217,186

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529 Plan			
	No College	College	FLP
Total Investment by Grandparent	$174,694	$140,000	$161,463
Earnings	86,365	77,186	69,654
Tax Paid by Grandchild	(43,873)	----	(13,931)
Net Amount Received by Grandchild	**$217,186**	**$217,186**	**$217,186**

Assumptions:

- College Savings Account with an initial first year investment of $140,000 in the case of the grandchild attending college. If the grandchild does not attend college, the College Savings Account would need an initial first year investment of $140,000 and additional investments of $28,000 in year 6, and $6,694 in year 7.
    1. Maximum federal income tax rate 37%[2] on earnings when distributed
    2. If the distribution is not used for higher education expenses, the earnings are taxable to the grandchild.
- Family Limited Partnership investing $37,333 a year for the first four years; $12,131 in fifth year
    1. 25% discount applied to the gift (i.e. - $37,333 discounted to $28,000)
    2. Only growth stocks invested in the Family Limited Partnership
    3. Maximum federal capital gains rate of (20%)[2] on earnings when investments are sold
        - 5% rate of return on investments
        - Gift tax-free funding
        - A federal surtax (10%) is charged on earnings of the College Savings Account if the money is not used for higher education purposes.

Conclusion:

There are advantages and disadvantages of using either the College Savings Account (529 Plan) or a Family Limited Partnership. What is clear is that the arithmetic works out relatively close when the grandchild does not go to college so that other reasons (i.e. investment flexibility, administration, etc.) should be used to evaluate which option to use. When the grandchild does go to college, 529 Plans are going to be hard to beat! What is also clear is that the tax savings generated by using these options are large enough to warrant consideration in an overall estate plan. ■

1 The IRS is auditing/challenging on a more frequent basis discounts taken on gifts of family limited partnership interests. In addition, the IRS has also raised the issue whether gifts to family limited partnerships are eligible for the annual exclusion.

2 Effective January 1, 2018, the maximum federal income tax is 37%. The maximum federal capital gains rate remains at 20%. Starting in 2013, under the Patient Protection and Affordable Care Act (PPACA), higher income taxpayers must also start paying a 3.8 percent additional tax on net investment income (NII) to the extent certain threshold amount of income are exceeded ($200,000 for a single and $250,000 for joint return.)

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Prepaid College Tuition Plans

Since 1996, when Section 529 was added to the Internal Revenue Code, many states have enacted qualified state tuition plans. Section 529 sets the rules states must follow so that taxpayers qualify for tax-free treatment on higher education tax savings incentive programs. There are two basic types of programs: college tuition savings plans (see previous article) and prepaid college tuition plans.

With prepaid college tuition plans, the state or the Private College 529 Plan guarantees a hedge against tuition inflation by determining the future cost of college education discounted to today's dollar. The contributor purchases a contract for tuition credits that will be used by the beneficiary. Payment for the contract is invested by the state. When the beneficiary enters an in-state public college, the state pays the college tuition. Should the beneficiary go to a private college or to an out-of-state college, the states limit the amounts that can be transferred to pay college tuition. These limitations vary from state to state. Additionally, some states allow excess fund gains to be used for other qualified higher education expenses ("QHEE") of the beneficiary such as books, supplies, dormitory and board costs.

TAXABILITY:
Contributions to qualified state prepaid tuition programs are generally not deductible. Earnings accumulated in these programs are tax-free for federal and most state purposes.

ADVANTAGES:

- The beneficiary of a prepaid college tuition plan may attend in-state public colleges at reduced resident rates even if the beneficiary moved from the state subsequent to the contract.
- Contributions to prepaid college tuition plans are considered completed gifts and are removed from the contributor's estate.
- While the purchaser of the prepaid college tuition plan contract is subject to gift tax, the gift can be allocated over a five-year period. Therefore, an account owner who purchases a contract for $75,000 ($150,000 joint) or less, can utilize the annual exclusion over five years and have no gift tax liability provided that is the only gift to the beneficiary within the five-year period. If the purchaser dies within the 5 years, a prorated portion is thrown back into his/her estate. This can become very, very expensive if the contributor dies during the 5 years and the gift is to a grandchild or like beneficiary and the contributor has already utilized his/her generation-skipping tax (GST) exemption. In such a case, the prorated portion added back to the contributor's estate is subject to both estate tax and generation-skipping tax with a combined Federal tax rate currently of 80 percent.
- The beneficiary has no control over the funds.
- Only the contributor of the prepaid college tuition plan contract has the right to make changes, transfers, and cancellations and refund requests. All refunds, including earnings, will be made payable to the contributor.
- Payment Options - Many states offer a variety of payment plans. In Florida, for example, the purchaser may make a single lump-sum payment, pay monthly installments over 5 years or make equal monthly payments until October of the year the beneficiary enters college.
- Prepaid college tuition plan contracts may not be transferred to another contributor. However, substitute beneficiaries may be chosen among state-approved family members.
- Payments to prepaid college tuition plans are exempt from some creditors' claims and bankruptcy proceedings.

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DISADVANTAGES:

- The beneficiary will not qualify for the American Opportunity credit, the Lifetime Learning credit or above-the-line deduction on funds utilized from the prepaid plans.

- In some states the contributor and/or the beneficiary must be a resident of the state to establish a pre-paid college tuition plan. (see chart).

- Some states do not guarantee the prepaid college tuition plan contract and in a worst case scenario, the program trust fund could become insolvent.

- Some state prepaid college tuition plans do not cover all costs. Books, supplies, certain fees and transportation costs are generally not covered by state tuition plans. These costs will not be hedged against inflation.

- Prepaid college tuition plans cannot be utilized for post-graduate education.

- If a prepaid college tuition plan is terminated by the contributor and funds are withdrawn (not used to pay QHEE), then the contributor will be subject to tax and a minimum federal 10 percent surtax on the portion of the withdrawals attributable to earnings. In addition certain states also impose penalties.

- The contributor has no control over investments.

- The contributor gets no tax deduction for purchase of prepaid college tuition plan contracts.

- Most prepaid state college tuition plans will accept only as much as is necessary to pay for up to five years of undergraduate tuition and fees at instate public colleges. If you intend to send the beneficiary to a private college or an out-of-state college the additional costs will not be hedged against inflation. However, consider the Private College 529 Plan which now includes over 270 private colleges and universities. (see next page)

- Some states limit the time the contracts are valid. In Florida, for example, the contract will expire 10 years from the beneficiary's projected enrollment date.

- A prepaid tuition plan is a resource of the beneficiary that may reduce the beneficiary's financial aid packages by as much as 5.7% of the value of the plan. This was changed from 35% for 2005 and prior. The college tuition savings plans which are considered assets of the account owner continue to be 5.7% of the value of the plan which will be included in most financial aid formulas if owned by the parent, none if owned by a grandparent.

ALTERNATIVES TO PREPAID TUITION PLANS:
An excellent estate planning technique is to have grandparents directly pay tuition for their grandchildren. In addition to the pride and esteem felt by the grandparents for giving their grandchildren a truly beneficial gift, they will also be helping their children by easing their cash flow burdens. What's more, the tuition paid is not considered a taxable gift, regardless of the amount (provided it is only for qualified tuition and paid directly to the institution).

In a recent ruling the Internal Revenue Service ruled that a grandparent who prepaid tuition payments on behalf of her grandchildren qualified for the tuition gift-tax exclusion. In this instance, the grandparent was dying when she prepaid over $180,000 of her grandchildren's private day school tuition. Any prepaid tuition not utilized by the grandchildren would be forfeited and would become a contribution to the school. By prepaying her grandchildren's tuition, the grandparent effectively removed $180,000 from her estate without gift-tax cost and still allowed her to make annual exclusion gifts ($15,000 per donee) during the year.

While this method of tuition payment is not likely to become a primary planning tool, it can be utilized to reduce the taxable estate of high net worth individuals. For example, if a grandchild is accepted to a college, the grandparent could prepay the four year's college tuition upfront with no gift-tax liability. Alternatively, if it is relatively certain that a grandchild will be attending a private day school throughout their grade school career, the grandparent could prepay the tuition upfront with no gift-tax liability. This insures the child's tuition is paid for with dollars that would normally be subject to estate tax if the grandparent does not live throughout the child's school career.

PRIVATE COLLEGE 529 PLAN:
Launched in September 2003, the Private College 529 Plan (formerly known as Independent 529 Plan) has been developed by a consortium of over 280 private colleges. It is the only private-college-run 529 plan in the country. This prepayment program allows families to lock in tuition at today's rates at any of its participating private colleges. Through the Plan, you purchase certificates at a discounted rate. When the student is later accepted at the member college, the certificate is used to pay the percentage of tuition you pre-purchased. Certificates must be held at least three years before redemption and redeemed within 30 years. After three years, you can redeem the certificates at any of the participating colleges. You receive favorable income tax benefits for investment in the Plan, since the Plan possesses the characteristics of the Internal Revenue Code Section 529 Plan. OFI Private Investments, Inc. is the program manager for the Plan. To obtain the list of participating colleges and any further information, you may go to the website www.privatecollege529.com. ■

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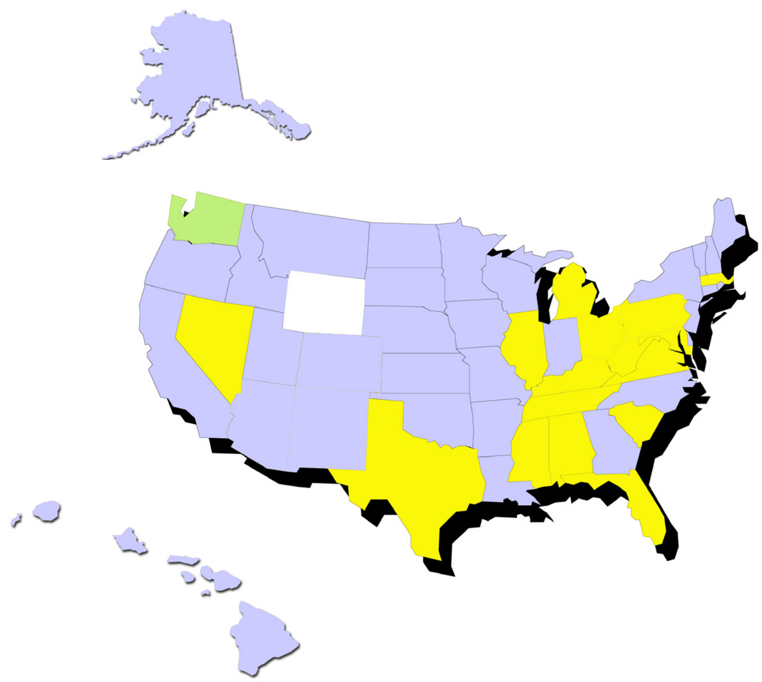
Qualified State Tuition Plans - State by State

COLLEGE TUITION SAVINGS PLANS:

Alabama
Alaska[4]
Arizona
Arkansas
California
Colorado
Connecticut
District of Columbia
Delaware
Florida
Georgia [2]
Hawaii
Idaho
Illinois
Indiana
Iowa
Kansas
Kentucky
Louisiana[3]
Maine
Maryland
Massachusetts
Michigan
Minnesota
Mississippi
Missouri
Montana
Nebraska
Nevada
New Hampshire
New Jersey[1]
New Mexico
New York
North Carolina
North Dakota
Ohio[4]
Oklahoma
Oregon
Pennsylvania[4]
Rhode Island[1]
South Carolina[1]
South Dakota[1]
Tennessee
Texas
Utah
Vermont
Virginia
West Virginia[1]
Wisconsin



States with College Tuition Savings Plans

States with both College Tuition Savings Plans and Prepaid College Tuition Plans

States with Prepaid College Plans

PREPAID COLLEGE TUITION PLANS:

Alabama [7]
Florida [4] [5]
Illinois [5]
Kentucky [7]
Maryland [5]
Massachusetts [6]
Michigan [5]
Mississippi [5]
Nevada [5]
Ohio[5] [7]
Pennsylvania [5]
South Carolina [5] [7]
Tennessee [7]
Texas [5]
Virginia [5] [7]
Washington [4] [5]
West Virginia [5] [7]
Private College (FKA Independent) [8]

(1) Two or more programs under college Tuition Savings Plans. One plan is open to residents of the state only. The others are open to both residents and non-residents of the state.
(2) Georgia has Hope Scholarship for Georgia residents who attend Georgia public colleges and maintain a "B" average. The Hope Scholarship pays total tuition costs.
(3) Savings plans open to residents and/or beneficiaries of the state only.
(4) Under certain circumstances state will pay qualified higher education expenses (room, board, books, supplies and equipment) in addition to tuition.
(5) Beneficiary and/or contributor to Prepaid College Tuition Plan must be a resident of the state.
(6) Not a qualified 529 plan -contributor purchases a municipal bond linked to cost of tuition. Approximately 80 Massachusetts' colleges participate. If beneficiary attends one of those colleges than state pays the tuition. If beneficiary does not go to a participating college the contributor receives a refund of principal plus compounded interest equal to CPI without penalty. Earnings are not taxable federally or in Massachusetts.
(7) Closed to contributions or new enrollments.
(8) See article on Prepaid College Tuition Plans for more information.

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College Tuition Savings Plans

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COLLEGE TUITION SAVINGS PLANS (529 Plans)

STATE	AVAILABLE PROGRAMS	STATE DEDUCTION OR CREDIT FOR CONTRIBUTION	NON-RESIDENT PARTICIPATION	INVESTMENT MANAGER	ANNUAL FEES	MAXIMUM LIFETIME CONTRIBUTIONS	WEB SITE	CONTACT INFO	INVESTMENT OPTIONS AND OTHER COMMENTS
ALABAMA	(1) CollegeCounts 529 Fund (Direct-sold)	$5,000 single / $10,000 joint	Yes	UBT 529 Fund Services	.25% (1)	$475,000	www.collegecounts529.com	866-529-2228	Age based portfolios are available; also 6 multi-fund portfolios and 26 individual-fund portfolios.
	(2) CollegeCounts 529 Fund (Advisor-sold)	$5,000 single / $10,000 joint	Yes	UBT 529 Fund Services	$12 + .40% (1)	$475,000	www.collegecounts529advisor.com	866-529-2228	Age based portfolios are available; also 6 multi-fund portfolios and 24 individual-fund portfolios.
ALASKA	(1) Alaska 529	N/A (Alaska does not have a personal income tax)	Yes	T Rowe Price Associates, Inc.	0.05% annualized Trust Fee, except the ACT Portfolio (1)	$475,000	http://www.Alaska529plan.com	866-277-1005	Age based portfolios are available; also 3 fund options: Equity, Balanced, and ACT, the Total Equity Market Index, the Fixed-Income, and the Money Market Portfolio.
	(2) John Hancock Freedom 529	N/A (Alaska does not have a personal income tax)	Yes	T Rowe Price Associates, Inc.	$15(1)	$475,000	http://www.jhinvestments.com/College/Overview.aspx	866-222-7498	Age based portfolios are available; also 3 blended-fund, the Short-term bond, 3 lifestyle, the money market and 8 single-fund portfolios .
	(3) T. Rowe Price College Savings Plan	N/A (Alaska does not have a personal income tax)	Yes	T Rowe Price Associates, Inc.	0.05% Trust Fee (1)	$475,000	https://www.troweprice.com/personal-investing/products-and-services/college-savings-plans/t-rowe-price-college-savings-plan.html	800-369-3641	Age based portfolios are available; also 2 multi-fund, the Fixed-Income, the Total Equity Market Index, and the Money Market portfolio.
ARIZONA	(1) Arizona Family College Savings Program	$2,000 single / $4,000 joint	Yes	College Savings Bank	None	$505,000	www.collegesavings.com/arizona	800-888-2723	Fixed-rate CDs with one-year, two-year or three-year maturities; and the CollegeSure Honors Savings Account.
	(2) Ivy InvestEd 529 Plan (Advisor-Sold)	$2,000 single / $4,000 joint	Yes	Waddell & Reed , Inc.	$20(1)	$494,000	www.ivyfunds.com	800-777-6472	Age based portfolios are available; also 10 fund-of-funds portfolios and 19 individual-fund portfolios.
	(3) Fidelity Arizona College Savings Plan	$2,000 single / $4,000 joint	Yes	Fidelity Investments	.09% - 0.20 (1)	$505,000	www.fidelity.com/arizona-529/	800-544-1262	Age based portfolios available; Also 6 multi-fund portfolios, 5 individual fund portfolios and a Bank Deposit Portfolio.
ARKANSAS	(1) GIFT College Investing Plan	$5,000 single / $10,000 joint	Yes	Ascensus College Savings	0.32% - 0.48%+ $20	$366,000	www.thegiftplan.com	800-587-7301	Age based portfolios are available; also 5 mutual-fund portfolios, a money market portfolio, and an FDIC-Insured Savings option.
	(2) iShares 529 Plan	$5,000 single / $10,000 joint	Yes	Ascensus Broker Dealer Services, Inc.	.40% + $10(1)	$366,000	www.ishares529.com	888-529-9552	7 iShares Year-of-Enrollment Portfolios and 4 iShares Asset Allocation Portfolios. The Custom iShares portfolio option offers 17 individual portfolios.
CALIFORNIA	(1) ScholarShare 529	None	Yes	TIAA-CREF Tuition Financing, Inc.	.03%-.08% based on type of portfolio	$529,000	www.scholarshare.com	800-544-5248	Age based portfolios are available; also 12 multio- fund portfolios, 4 individual fund portfolios and a principal-protection portfolio.
COLORADO	(1) Scholars Choice College Savings Program (Advisor-Sold)	All contributions	Yes	QS Investors and Legg Mason Investor Services, LLC	.10% - 1.09% + $20 (1)	$400,000	www.scholars-choice.com	888-572-4652	Age based portfolios are available; 5 individual fund portfolios and 6 static options. (7 different fund managers)
	(2) Stable Value Plus College Savings Program	All contributions	Yes	Nationwide Mutual Insurance Company	0.99%	$400,000	www.collegeinvest.org	800-448-2424	A stable value investment under a funding agreement with Nationwide Mutual Insurance Company
	(3) Direct Portfolio College Savings Plan	All contributions	Yes	Ascensus Broker Dealer Services, Inc. and The Vanguard Group, Inc.	.34% + $20 (1)	$400,000	www.collegeinvest.org	800-997-4295	Age based portfolios are available; also 5 multi-fund and 3 individual-fund portfolios.
	(4) Smart Choice College Savings Plan	All contributions	Yes	FirstBank Holding Company	None	$400,000	www.collegeinvest.org	800-964-3444	2 types of Savings accounts - Money Market Savings Account and One-Year Time Savings Account (FDIC-Insured bank deposit accounts with FirstBank)

COLLEGE TUITION SAVINGS PLANS (529 Plans)

STATE	AVAILABLE PROGRAMS	STATE DEDUCTION OR CREDIT FOR CONTRIBUTION	NON-RESIDENT PARTICIPATION	INVESTMENT MANAGER	ANNUAL FEES	MAXIMUM LIFETIME CONTRIBUTIONS	WEB SITE	CONTACT INFO	INVESTMENT OPTIONS AND OTHER COMMENTS
CONNECTICUT	(1) Connecticut Higher Education Trust (CHET)	$5,000 single / $10,000 joint	Yes	TIAA-CREF Tuition Financing, Inc.	.12% manager fee+0.01% state fee(1)	$300,000	www.aboutchet.com	888-799-2438	Age based portfolios are available; also 4 static blend and 5 individual investment options.
	(2) Connecticut Higher Education Trust (CHET) - Advisor	$5,000 single / $10,000 joint	Yes (account owner must have a CT mailing address)	Hartford Funds Management Company	0.16% manager fee + 0.01 state fee(1)	$300,000	www.hartfordfunds.com	877-407-2828	Age based portfolios are available; 4 Static options and 12 individual fund options
DELAWARE	(1) Delaware College Investment Plan	None	Yes	Fidelity Investments	.09% - .20% (1)	$350,000	www.fidelity.com/delaware-529/	800-544-1655	Age based portfolios are available also 6 multi-fund-options; 5 individual fund portfolios and the Bank Deposit Portfolio
DISTRICT OF COLUMBIA	(1) DC College Savings Plan	Up to $4,000 single / $8,000 joint with a 5-Year Carryover of Excess	Yes	Ascensus College Savings	.30% + ($15 Nonresident/$10 Resident) (1)	$500,000	www.dccollegesavings.com	800-987-4859	Age based portfolios are available; also 8 individual-fund portfolios
FLORIDA	(1) Florida 529 Savings Plan	N/A (Florida does not have a personal income tax)	No	Florida Prepaid College Board	None (1)	$418,000	www.myfloridaprepaid.com	800-552-4723	Age based portfolios are available; also 3 investment portfolios: growth, blended, and income , and 7 single investment funds
GEORGIA	(1) Path2College 529 Plan	$4,000 per beneficiary for single filers/$8,000 per beneficiary for joint filers	Yes	TIAA-CREF Tuition Financing, Inc.	0.07% manager fee + 0.06% state fee (1)	$235,000	www.path2college529.com	877-424-4377	Age based portfolios are available; also 4 multi-fund portfolios, the Guaranteed Option, and the Money Market Option
HAWAII	(1)Hawaii's College Savings Program	None	Yes	Ascensus College Savings, with The Vanguard Group as investment manager	0.55%+ $20	$305,000	www.hi529.com	866-529-3343	Age based portfolios are available; also 4 multi-fund portfolios and 4 individual-fund portfolios. (Vanguard Mutual Funds)
IDAHO	(1) Idaho College Savings Program (IDeal)	$6,000 single / $12,000 joint	Yes	Ascensus College Savings	0.40% - 0.41% + $20(1)	$500,000	www.idsaves.org	866-433-2533	Age based portfolios are available; also 5 multi-fund portfolios with varying risk tolerances, an interest accumulation and a savings portfolio. (Vanguard mutual funds)
ILLINOIS	(1) Bright Start Direct-Sold College Savings Program	$10,000 single / 20,000 joint	Yes	Union Bank & Trust Company	.08% - .11% (1)	$450,000	www.brightstartsavings.com	877-432-7444	Age based portfolios are available; 3 Target Portfolios and 3 Index Portfolios
	(2) Bright Directions Advisor-Guilded 529 College Savings Program	$10,000 single / 20,000 joint	Yes	Union Bank & Trust Company of Lincoln	0.15% - 0.18%(1)	$450,000	www.brightdirections.com	866-722-7283	Age based options are available; also 7 multi-fund portfolios, 34 individual fund portfolios, and 15 additional individual portfolios investing in Vanguard ETF funds
INDIANA	(1) CollegeChoice Advisor 529 Savings Plan (Advisor-sold)	Up to $5,000 credit	Yes	Ascensus College Savings	0.31% - 0.41% + $20(1)	$450,000	www.collegechoiceadvisor529.com	866-485-9413	Age based portfolios are available; also 12 single fund portfolios. A FDIC-insured bank savings option is also offered.
	(2) CollegeChoice 529 Direct Savings Plan (Direct-sold)	Up to $5,000 credit	Yes	Ascensus College Savings	0.18%-0.82%+$20(1)	$450,000	www.collegechoicedirect.com	866-485-9415	Age based portfolios are available; also 7 options using various investment managers.
	(3) CollegeChoice CD 529 Savings Plan	Up to $5,000 credit	Yes	College Savings Bank	None	$450,000	www.collegechoicecd.com	888-913-2885	Fixed-rate CDs with one-year, two-year or three-year maturities; and the Honors Savings Account.
IOWA	(1) College Savings Iowa	$3,439 single / $6,878 joint per beneficiary	Yes	State Treasurer of Iowa, Ascensus College Savings and the Vanguard Group	0.20%	$420,000	www.collegesavingsiowa.com	888-672-9116	Age based portfolios are available; also 6 multi-fund portfolios and 4 single-fund portfolios (Vanguard mutual funds)
	(2) IAdvisor 529 Plan	$3,439 single / $6,878 joint per beneficiary	Yes	Voya Investment Management Co. LLC	.50% manager fee + (.25% or 1.00% distribution & marketing fee) +$25(1)	$420,000	http://www.iowaadvisor529.com	800-774-5127	Age based portfolios are available; also 4 static allocation portfolios and 12 individual-fund portfolios from various investment managers.

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COLLEGE TUITION SAVINGS PLANS (529 Plans)

STATE	AVAILABLE PROGRAMS	STATE DEDUCTION OR CREDIT FOR CONTRIBUTION	NON-RESIDENT PARTICIPATION	INVESTMENT MANAGER	ANNUAL FEES	MAXIMUM LIFETIME CONTRIBUTIONS	WEB SITE	CONTACT INFO	INVESTMENT OPTIONS AND OTHER COMMENTS
KANSAS	(1) Kansas Learning Quest 529 Education Savings Program (Direct Sold)	$3,000 Single/$6,000 Joint Per Beneficiary	Yes	American Century Investment Management Inc.	0.20%(1)	$435,000	www.learningquest.com	800-579-2203	3 different risk levels of age based portfolios are available; also 12 static portfolio options, index-fund options, and the Cash and Cash Equivalents portfolio
	(2) Kansas Learning Quest Advisor (Advisor-Sold)	$3,000 Single/$6,000 Joint Per Beneficiary	Yes	American Century Investment Management Inc.	.45%-1%(1)	$435,000	www.learningquest.com	877-882-6236	Age based = same as above. 8 multi-fund options, 11 American Century individual fund options and the Cash and Cash Equivalent option.
	(3) Schwab 529 College Savings Plan	$3,000 Single/$6,000 Joint Per Beneficiary	Yes	American Century Investment Management Inc.	.20%(1)	$435,000	www.schwab.com/529	866-903-3863	3 different risk levels of age based portfolios are available; also 8 multi-fund portfolios
KENTUCKY	(1) KY Saves 529	None	Yes	Ascensus College Savings	0%-.40%(1)	$350,000	www.kysaves.com	877-598-7878	Age based portfolios are available; a mix of equity and fixed income, active or index-based, FDIC-insured options are available.
LOUISIANA	(1) START Saving Program	$2,400 single/$4,800 joint Per Beneficiary (3)	No(4)	Louisiana State Treasurer	None(1)	$500,000	www.startsaving.la.gov	800-259-5626	Age based portfolios are available; also 6 Vanguard individual fund options and Louisiana Principal Protection Option.
MAINE	(1) NextGen 529 -Client Direct Series	No deduction available for tax years beginning after 12/31/2015	Yes	Merrill Lynch , Pierce, Fenner and Smith Incorporated	0.07%-0.15%(1)	$500,000	http://www.nextgenforme.com/	877-463-9843	Age based portfolios are available; also 5 diversified and 3 single-fund portfolios
	(2) NextGen 529 -Client Select Series (Advisor-Sold)	No deduction available for tax years beginning after 12/31/2015	Yes	Merrill Lynch , Pierce, Fenner and Smith Incorporated	0.40%-1.25%(1)	$500,000	http://www.nextgenforme.com/	877-463-9843	Age based portfolios are available; 11 diversified and 22 individual-fund portfolios
MARYLAND	(1) Maryland 529 -- Maryland Senator Edward J. Kasemeyer College Investment Plan	$2,500 single / $5,000 joint Per Beneficiary with a 10-year carryover of excess	Yes	T. Rowe Price Associates, Inc.	0.05% Trust Fee(1)	$500,000	www.collegesavingsmd.org	888-463-4723	Age based portfolios are available; also 3 multi and 6 individual portfolios: Equity, Balanced, Bond and Income, Inflation Focused Bond, U.S Treasury Money Market and Global Equity Market Index.
MASSACHUSETTS	(1) U. Fund College Investing Plan	1,000 single/ $2,000 joint	Yes	Fidelity Investments	0.09% -0.20%(1)	$400,000	https://www.fidelity.com/529-plans/massachusetts	800-544-2776	Age based portfolios are available; also 6 multi fund, 5 individual fund portfolios and a Bank Deposit Portfolio.
MICHIGAN	(1) Michigan Education Savings Program	$5,000 single/ $10,000 joint	Yes	TIAA-CREF Tuition Financing, Inc.	0.07% - .17% (1)	$500,000	www.misaves.com	877-861-6377	Age based portfolios are available; also 6 multi-fund options, the U.S Equity Index and the Principal Plus Interest Option.
	(2) MI 529 Advisor Plan	$5,000 single/ $10,000 joint	Yes	TIAA-CREFTuition Financing, Inc.	0.62%-0.75%(1)	$500,000	www.mi529advisor.com	866-529-8818	Age based portfolios are available; also 2 target-risk portfolios, a multi-fund and 16 individual-fund portfolios
MINNESOTA	(1) Minnesota College Savings Plan	$1,500 single/ $3,000 joint	Yes	TIAA-CREF Tuition Financing, Inc.	0.1025%(1)	$425,000	www.mnsaves.org	877-338-4646	Age based portfolios are available; also 10 options: 7 multi-fund portfolios, two single fund portfolios, and the Principal Plus Interest Option
MISSISSIPPI	(1) Mississippi Affordable College Savings (MACS) Program	$10,000 single/ $20,000 joint	Yes	Intuition College Savings Solutions, LLC	0.60%(1)	$235,000	http://www.treasurerlynnfitch.com/collegesavingsmississippi/Pages/MACS.aspx	800-987-4450	Age based portfolios are available; also 5 multi-fund risk-based options, 3 single fund options and Guaranteed Option
MISSOURI	(1) MOST - Missouri's 529 College Savings Plan (Direct-sold)	$8,000 single / $16,000 Joint	Yes	Ascensus College Savings	0.15%-0.21%(1)	$325,000	www.missourimost.org	888-414-6678	Age based portfolios are available also 6 multi-fund portfolios and 10 individual-fund portfolios.
MONTANA	(2) Achieve Montana (fka Montana Family Education Savings Program - Investment Plan)	$3,000 single/$6,000 joint	Yes	Ascensus College Savings, with The Vanguard Group and Dimensional Fund Advisors LP as investment managers.	0.47% -0.72% +$25(1)	$396,000	https://achievemontana.com/content/home.html	800-888-2723	Age based portfolios are available; also 5 portfolios (Aggressive, Growth, Moderate, Conservative, Income, and an FDIC-insured savings option)

COLLEGE TUITION SAVINGS PLANS (529 Plans)

STATE	AVAILABLE PROGRAMS	STATE DEDUCTION OR CREDIT FOR CONTRIBUTION	NON-RESIDENT PARTICIPATION	INVESTMENT MANAGER	ANNUAL FEES	MAXIMUM LIFETIME CONTRIBUTIONS	WEB SITE	CONTACT INFO	INVESTMENT OPTIONS AND OTHER COMMENTS
NEBRASKA	(1) Nebraska Education Savings Trust - Direct College Savings plan	$10,000 single & joint /$5,000 if married filing separate	Yes	Union Bank and Trust Company	0.20% -.27%(1)	$500,000	www.nest529direct.com	888-993-3746	3 different risk levels of age based portfolios are available as well as 6 static options and 15 individual-fund portfolios
	(2) State Farm College Savings Plan	$10,000 single & joint /$5,000 if married filing separate	Yes	Union Bank and Trust Company	0.20% - .27%(1) + $15	$500,000	www.statefarm.com/mutual/acct_types/529.asp	800-321-7520	Aged base portfolios are available; also 7 portfolios: All Equity, Growth, Moderate Growth, Balanced, Conservative, Bank Savings and Money Market
	(3)TD Ameritrade 529 College Savings Plan	$10,000 single & joint /$5,000 if married filing separate	Yes	Union Bank and Trust Company	0.32% - 0.42% (1)	$500,000	http://collegesavings.tdameritrade.com/index.asp?Domain=http://www.tdameritrade.com&HeaderPath=/iframes/nav.html&HeaderHeight=143&HeaderWidth=100%25&HeaderScroll=no&FooterPath=/iframes/footer.html&FooterHeight=174&FooterWidth=100%25&FooterScroll=no	877-408-4644	2 different risk levels of age based portfolios are available; 5 static investment portfolios and 17 individual-fund portfolios
	(4) Nebraska Education Savings Trust - Advisor College Savings plan	$10,000 single & joint /$5,000 if married filing separate	Yes	Union Bank and Trust Company	0.20% -.27%(1)	$500,000	www.nest529advisor.com	888-659-6378	3 different risk levels of age based portfolios are available as well as 5 static options and 19 individual-fund portfolios
NEVADA	(1) SSGA Upromise 529 Plan	N/A (Nevada does not have a personal income tax)	Yes	Ascensus College Savings is program manager and State Street Global Advisors (SSgA) is investment manager except for the Savings Portfolio, which is managed by Sallie Mae Bank.	(0.31% - 0.36%)+$20(1)	$500,000	www.ssga.upromise529.com	866-967-2776	Age based portfolios are available as well as 3 risk-based portfolios, 15 individual-fund portfolios and an FDIC-insured savings account.
	(2) USAA 529 College Savings Plan	N/A (Nevada does not have a personal income tax)	Yes	Ascensus College Savings	0.12% + $10(1)	$500,000	www.usaa.com	800-531-8722	Age based portfolios are available as well as 10 fixed allocation portfolios
	(3) The Vanguard 529 College Savings Plan	N/A (Nevada does not have a personal income tax)	Yes	Ascensus College Savings	0.11%-0.19%	$500,000	https://investor.vanguard.com/529-plan/vanguard-529-plan	866-734-4530	3 different risk levels of age based portfolios are available as well as 11 portfolios of underlying mutual funds and 10 single-fund portfolios (Vanguard mutual funds)
	(4) Putnam 529 for America (Advisor-sold)	N/A (Nevada does not have a personal income tax)	Yes	Putnam Investment Management	0.14% - 1.14% +$15(1)	$500,000	www.putnam.com/individual/college-savings	877-788-6265	Age based portfolios are available as well as 3 goal-based options, 2 Putnam Absolute Return Funds options and 10 individual-fund options.
	(5) Wealthfront 529 College Savings Plan	N/A (Nevada does not have a personal income tax)	Yes	Ascensus Broker Dealer Services, Inc.	.31% (1)	$500,000	http://www.wealthfront.com/529	650-249-4250	An individual portfolio based on risk tolerance assessment chosen from one of the 20 glide paths, each of which determines how the portfolio's asset allocations will change over time.
NEW HAMPSHIRE	(1) Fidelity Advisor 529 Plan	N/A (New Hampshire does not have a personal income tax)	Yes	Fidelity Investments	0.35% - 1.20%+$20(1)	$522,000	https://institutional.fidelity.com/app/home/financial-advisors	877-208-0098	Age based portfolios are available as well as 2 multi-fund options: Aggressive Growth, Moderate Growth and 17 individual fund portfolios
	(2) UNIQUE College Investing Plan	N/A (New Hampshire does not have a personal income tax)	Yes	Fidelity Investments	0.09%-0.14% (1)	$522,000	www.fidelity.com/new-hampshire-529/	800-544-1914	Age based portfolios are available as well as 6 multi-fund portfolios, 5 individual-fund portfolios and a Bank Deposit Portfolio
NEW JERSEY	(1) NJBEST 529 College Savings Plan	None	No(4)	Franklin Templeton Distributors, Inc.	0.10%(1)	$305,000	www.njbest.com	877-465-2378	Age based portfolios are available as well as 4 multi-fund portfolios, S&P 500 index portfolio, and the Franklin Money 529 Portfolio
	(2) Franklin Templeton 529 College Savings Plan	None	Yes	Franklin Templeton Distributors, Inc.	0.25% - 1.25%(1)	$305,000	www.franklintempleton.com	866-362-1597	Age based portfolios are available as well as 5 multi-fund portfolios, 8 individual fund portfolios, and a Franklin Money 529 Portfolio
NEW MEXICO	(1) The Education Plan's College Savings Program	All Contributions	Yes	Ascensus College Savings	0.10%(1)	$500,000	www.theeducationplan.com	877-337-5268	Age based portfolios of 11 portfolios of underlying mutual funds

COLLEGE TUITION SAVINGS PLANS (529 Plans)

STATE	AVAILABLE PROGRAMS	STATE DEDUCTION OR CREDIT FOR CONTRIBUTION	NON-RESIDENT PARTICIPATION	INVESTMENT MANAGER	ANNUAL FEES	MAXIMUM LIFETIME CONTRIBUTIONS	WEB SITE	CONTACT INFO	INVESTMENT OPTIONS AND OTHER COMMENTS
	(2) Scholar'sEdge	All Contributions	Yes	Ascensus College Savings	0.20%-1.20%+$25(1)	$500,000	www.scholarsedge529.com	866-529-7283	Age based portfolios are available as well as 4 target-risk portfolios, 15 individual fund portfolio and the Capital Preservation Portfolio
NEW YORK	(1) New York's 529 College Savings Program - Direct Plan	$5,000 single/$10,000 joint	Yes	Ascensus College Savings	0.13%	$520,000	www.nysaves.org	1-877-697-2837	3 different risk levels of age based portfolios are available along with 5 multi-fund portfolios, 7 individual fund portfolios, and the Interest Accumulation portfolio
	(2) New York's 529 College Savings Program - Advisor Plan	$5,000 single/$10,000 joint	Yes	Ascensus Broker Dealer Services, Inc.	0.30%-1.30%+$25(1)	$520,000	https://www.ny529advisor.com/home	1-800-774-2108	Age based portfolios plus 6 multi-fund portfolios and 17 single-fund portfolios
NORTH CAROLINA	(1) NC 529 Plan	None	Yes	College Foundation, Inc.	0.25%+$18(1)	$450,000	http://nc529.org/	1-800-600-3453	Aged based portfolios are available as well as a fixed-income portfolio, 5 multi-fund portfolios, 4 individual-fund portfolios and a federally-insured deposit account.
	(2) Morgan Stanley National Advisory 529 Plan	None	Yes	Morgan Stanley Smith Barney LLC	0.10%	$500,000	N/A	Clients should contact their Morgan Stanley Financial Advisor.	13 investment options representing different risk-level models ranging from conservative to all equity aggressive allocations.
NORTH DAKOTA	(1) College SAVE (Direct)	$5,000 single/$10,000 joint	Yes	Ascensus College Savings	(0.50%-0.51%)+20	$269,000	www.collegesave4u.com	1-866-728-3529	3 aged based portfolios are available as well as 6 asset allocation portfolios (Vanguard mutual funds)
	(1) College SAVE (Advisor)	$5,000 single/$10,000 joint	Yes	Ascensus College Savings	(0.80%-0.81%)+20	$269,000	www.collegesave4u.com	1-866-728-3529	3 aged based portfolios are available as well as 6 asset allocation portfolios (Vanguard mutual funds)
OHIO	(1) Ohio CollegeAdvantage Direct 529 Savings Plan	Up to $4,000 per beneficiary with an unlimited carryforward of excess	Yes	Ohio Tuition Trust Authority	0.15%(1)	$482,000	www.collegeadvantage.com	800-233-6734	Age based portfolios are available as well as 5 multi-fund portfolios and 13 single fund portfolios
	(3)BlackRock CollegeAdvantage Advisor 529 Savings Plan	Up to $4,000 per beneficiary with an unlimited carryforward of excess	Yes	BlackRock Advisors, LLC	0.39% - 1.14% + $25(1)	$482,000	www.blackrock.com	866-529-8582	Age based option available as well as 3 Target-Risk Investment Options and 17 Single Strategy Investment Options
OKLAHOMA	(1)Oklahoma College Savings Plan	$10,000 single/ $20,000 joint with 5-year carryover of excess	Yes	TIAA-CREF Tuition Financing, Inc.	0.30%(1)	$300,000	http://www.ok4saving.org	877-654-7284	Age based options are available as well as 4 multi-fund options (Global Equity, Diversified Equity, Balanced, and Fixed Income), 1 individual fund option and the Guaranteed Option.
	(2)Oklahoma Dream 529 Plan	$10,000 single/ $20,000 joint with 5-year carryover of excess	Yes	TIAA-CREF Tuition Financing, Inc. and Allianz Global Investors Distributors LLC	0.75% - 1.50% + $20(1)	$300,000	www.okdream529.com	877-529-9299	Age-Based option contains 8 portfolios of underlying mutual funds as well as 2 multi-fund portfolios and 17 individual-fund portfolios
OREGON	(1) MFS 529 Savings Plan	Effective 1/1/20, tax credit up to $150 for single filers and up to $300 for joint filers	Yes	MFS Fund Distributors, Inc.	0.30% - 1.30% + 25(1)	$400,000	www.mfs.com	866-637-7526	Age based portfolios are available as well as 5 multi-fund options and 13 individual-fund options
	(2)Oregon College Savings Plan	Effective 1/1/20, tax credit up to $150 for single filers and up to $300 for joint filers	Yes	Sumday Adminstration, LLC	0.25%(1)	$400,000	www.oregoncollegesavings.com	866-772-8464	Age based portfolios are available as well as 9 multi-fund options, 4 single-fund options, and the Principal Plus Interest Portfolio.
PENNSYLVANIA	(2) Pennsylvania 529 Investment Plan	$15,000 single/ 30,000 joint per beneficiary(5)	Yes	Pennsylvania Treasury Department, with Ascensus College Savings as record-keeper and servicing agent, and Vanguard as Investment Mgr	0.205%+$10(1)	$511,758	http://www.pa529.com	800-440-4000	Age based portfolios are available along with 6 multi-fund portfolios and 8 individual-fund portfolios
RHODE ISLAND	(1) CollegeBound 529 (Advisor-sold)	$500 single / $1,000 joint, unlimited carryover of excess	Yes	Ascensus College Savings	0.42% - 1.17% + $20(1)	$500,000	https://www.invesco.com/portal/site/us/investors/college-bound-529/?ivz_campaign=collegebound-529&ivz_source=vanityurl&ivz_content=collegebound-529-com	877-615-4116	Age based portfolios are available along with 3 Target-Risk Portfolio, and 11 single-funded portfolios (Invesco mutual funds and ETFs)

COLLEGE TUITION SAVINGS PLANS (529 Plans)

STATE	AVAILABLE PROGRAMS	STATE DEDUCTION OR CREDIT FOR CONTRIBUTION	NON-RESIDENT PARTICIPATION	INVESTMENT MANAGER	ANNUAL FEES	MAXIMUM LIFETIME CONTRIBUTIONS	WEB SITE	CONTACT INFO	INVESTMENT OPTIONS AND OTHER COMMENTS
	(2) CollegeBound Saver (Direct-sold)	$500 single / $1,000 joint, unlimited carryover of excess	Yes	Ascensus College Savings	0.25%(1); waived for residents	$500,000	www.collegeboundsaver.com/	877-517-4829	Age based portfolios are available along with 3 Target-Risk Portfolio, and 7 single-funded portfolios and a stable value option
SOUTH CAROLINA	Future Scholar 529 College Savings Plan (Advisor-sold)	All Contributions	Yes	Columbia Management Investment Advisors, LLC	0.25%-1.10.%+$25(1)	$520,000	www.columbiathreadneedleus.com/investment-products/529-plans/	888-244-5674	Age based portfolios are available as well as 7 Target Allocation portfolios, 24 individual fund portfolios, a money market fund, and a bank deposit account.
	Future Scholar 529 College Savings Plan (Direct-sold)	All Contributions	No(6)	Columbia Management Investment Advisors, LLC	None(1)	$520,000	www.futurescholar.com	888-244-5674	Age based portfolios are available as well as 7 Target Allocation portfolios, 7 individual-fund index portfolios, a short-term bond fund, a money market fund, and a bank dep acct
SOUTH DAKOTA	(1) CollegeAccess 529 (Direct-sold)	N/A (South Dakota does not have a personal income tax)	No(4)	Allianz Global Investors Distributors, LLC	None(1)	$350,000	www.collegeaccess529.com	866-529-7462	Age based portfolios are available, as well as Diversified Bond Portfolio and 2 individual-fund portfolios
	(1) CollegeAccess 529 (Advisor-sold)	N/A (South Dakota does not have a personal income tax)	Yes	Allianz Global Investors Distributors, LLC	0.60% - 1.35% + $20(1)	$350,000	www.collegeaccess529.com	866-529-7462	Age based portfolios are available, as well as 3 multi-fund options and 12 individual fund portfolios
TENNESSEE	(1) TNStars College Savings 529 Program	N/A (Tennessee does not have a personal income tax)	Yes	State of Tennessee Treasury Department	0.00% - 0.20%(1)	$350,000	www.tnstars.com	855-386-7827	Age based portfolios are available, as well as 15 individual options
TEXAS	(1) Texas College Savings Plan	N/A (Texas does not have a personal income tax)	Yes	NorthStar Financial Services Group, LLC	0.535% (1)	$370,000	www.texascollegesavings.com	800-445-4723 , option 3	Age based portfolios are available as well as 4 multi-fund options, 2 individual fund options, and U.S. Gov't Money Market Portfolios.
	(2)Lonestar 529 Plan	N/A (Texas does not have a personal income tax)	Yes	NorthStar Financial Services Group, LLC	0.785%-1.535%(1)	$370,000	www.lonestar529.com	800-445-4723, option 4	Age based portfolios are available as well as 2 multi-fund options, and 10 individual fund options
UTAH	(1) my529 (fka Utah Educational Savings Plan (UESP))	Income Tax Credit of $102 single/$204 joint per beneficiary	Yes	Utah Higher Education Assistance Authority	0.10% - 0.15%(1)	$500,000	https://my529.org/	800-418-2551	Age based portfolios are available as well as 7 static investment options including 1 single-fund option and an FDIC-insured savings account
VERMONT	(1) Vermont Higher Education Investment Plan	Income Tax Credit of $250 single/$500 joint per beneficiary	Yes	Intuition College Savings Solutions, LLC	0.32% - 0.35% + $10(1)	$352,800	www.vheip.org	800-637-5860	Age based portfolios are available as well as 5 multi-fund options
VIRGINIA	(1) CollegeAmerica	Up to $4,000 per account per year with an unlimited carryforward of excess (7)	Yes	American Funds and Capital Research and Management Company; and American Fund Distributors	0.45%-01.77%(1)	$500,000	www.americanfunds.com	800-421-4225	Age based portfolios are available as well as multi-fund portfolios, US Government Money Market or individual mutual funds from American Funds.
	(2) Invest529	Up to $4,000 per account per year with an unlimited carryforward of excess (7)	Yes	Virginia529 Board and its CEO	0.09%(1)	$500,000	www.virginia529.com	888-567-0540	Age based portfolios are available also 15 managed options (12 invest in Vanguard and 1 with Parnassus Core Equity Fund)
W. VIRGINIA	(1) SMART529 WV Direct College Savings Plan	All Contributions	No(4)	Hartford Funds Management Company, LLC	0.00% - 0.08%(1)	$400,000	www.smart529.com	866-574-3542	Age based portfolios are available as well as 5 multi-fund options, the SMART529 Stable Value portfolio and the SMART529 500 Index Fund
	(2) SMART529 Select	All Contributions	Yes	Hartford Funds Management Company, LLC	0.40% + $25(1)	$400,000	www.smart529select.com	866-574-3542	Age based portfolios are available as well as 10 multi-fund options (Dimensional Fund Advisors Inc.)
	(3) The Hartford SMART529	All Contributions	Yes	Hartford Funds Management Company, LLC	0.15%-1.16% + $25(1)	$400,000	www.smart529.com	866-574-3542	Age based portfolios are available as well as 5 multi-fund options, 13 individual fund options, and a stable value portfolio
WASHINGTON	DreamAhead College Investment Plan	N/A(WA doesn't have personal income tax)	Yes	Sumday Adminstration, LLC	.22% + $35	$500,000	www.dreamahead.wa.gov	844-529-5845	Select among 7 static investment options

COLLEGE TUITION SAVINGS PLANS (529 Plans)

STATE	AVAILABLE PROGRAMS	STATE DEDUCTION OR CREDIT FOR CONTRIBUTION	NON-RESIDENT PARTICIPATION	INVESTMENT MANAGER	ANNUAL FEES	MAXIMUM LIFETIME CONTRIBUTIONS	WEB SITE	CONTACT INFO	INVESTMENT OPTIONS AND OTHER COMMENTS
WISCONSIN	(1) Edvest	$3,340 single & joint / $1,670 married filed separately (per beneficiary)	Yes	TIAA-CREF Tuition Financing, Inc	0.07%(1)	$505,000	www.edvest.com	888-338-3789	Age based portfolios are available as well as 6 multi-fund options, 5 individual fund options, and a bank CD portfolio and a principal plus interest with guaranteed interest of 1%-3%
	(2) Tomorrow's Scholar 529 Plan	$3,340 single & joint / $1,670 married filed separately (per beneficiary)	Yes	Voya (Voya Investments Distributor, LLC and Voya Funds Services, LLC)	0.15% -1.15%+$25(1)	$505,000	www.tomorrowsscholar.com	866-677-6933	Age based portfolios are available along with 5 multi-fund portfolios and 18 single fund options

(1) Plus varying underlying investment expenses.

(2) The account owner must be a District of Columbia resident at the time of enrollment or work for a firm with over 300 employees that has payroll deduction for the DC College Savings Plan.

(3) Double deductions for up to $4,800 per year ($9,600 married filed jointly) may be claimed for an account opened for an eligible needy, non-related beneficiary.

(4) The account owner or beneficiary must be a resident at the time of program enrollment.

(5) Spouses filing jointly must each have at least $15,000 in income to claim the maximum $30,000 per-beneficiary deduction.

(6) The account owner or beneficiary must be a resident at the time pf program enrollment, or the account owner must work in the state, at the time of program enrollment.

(7) Contributions are fully deductible in the year of contribution for taxpayers at least 70 years of age.

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PREPAID COLLEGE TUITION PLANS (529 PLANS)

STATE	AVAILABLE PROGRAMS	STATE DEDUCTION OR CREDIT FOR CONTRIBUTION	NON-RESIDENT PARTICIPATION	STATE AGENCY(IES)	ENROLLMENT OR APPLICATION FEE	MAXIMUM LIFETIME CONTRIBUTIONS	WEB SITE	CONTACT INFO	INVESTMENT OPTIONS AND OTHER COMMENTS
FLORIDA	Stanley G. Tate Florida Prepaid College Plan	N/A (Florida does not have a personal income tax)	No(1)	Florida Prepaid College Board	$50	Up to a maximum of 120 hours of registration fees and up to 8 semesters of university dormitory coverage	www.myfloridaprepaid.com	800-552-4723	5 tuition plan packages; optional contract payment options. The beneficiary must be under 21 years of age and in the 11th grade or younger at the time of enrollment
ILLINOIS	College Illinois! 529 Prepaid Tuition Program	Up to $10,000 single / $20,000 Joint	No(2)	Illinois Student Assistance Commission	None	Pricing is specifically aligned to the age of the child at time of purchasing	www.collegeillinois.org	877-877-3724	3 tuition plan packages; optional contract payment options. The contract must be purchased at least three years before benefits are used to pay tuition and fees; 2020-21 enrollment is currently suspended while policy-makers address the plan's unfunded liability and how to strengthen the program.
MARYLAND	Maryland 529-Prepaid College Trust	Up to $2,500 single / $5,000 joint per account with an unlimited carryforward of excess contributions	No(4)	Maryland 529	$75 paper or $50 online application	$49,226	www.maryland529.com	888-463-4723	Various tuition plan packages; optional contract payment options. Beneficiaries must be in the 12th grade or younger at the time of enrollment and must be enrolled for 3 year to receive benefits.
MASSACHUSETTS	U.Plan	$1,000 single/ $2,000 joint per year effective 1/1/2017 through the 2021 tax year	Yes	MA Educational Financing Authority (MEFA)	None	Cost of tuition and fees for 4-year at the highest cost participating institution	www.mefa.org	800-449-6332	MA bonds that may be redeemed for a pre-determined percentage of tuition at a participating MA institution. A tuition certificate must be redeemed within 6 years after its maturity date
MICHIGAN	Michigan Education Trust	Up to $5,000 single / $10,000 joint	No(5)	MET Board of Directors and Dept of Treasury	$25 online or $60 by mail	$73,440 from 12/1/2019-4/30/2020 and $73,440 from 5/1/2020-9/30/2020 (4 yr contract)	www.michigan.gov/setwithmet	800-638-4543	Various tuition plan packages; optional contract payment options. Contract benefits must be used within 15 years after the projected college entrance date
MISSISSIPI	Mississippi Prepaid Affordable College Tuition (MPACT) Program	Up to $10,000 single / $20,000 Joint	No(4)	Mississippi Treasury Department	$60	$51,127 (for a 4 yr contract)	www.treasurerlynnfitch.ms.gov/collegesavingsmississippi/Pages/MPACT.aspx	800-987-4450	Various tuition plan packages; optional contract payment options. The beneficiary must be 18 years old or younger at the time of program enrollment
NEVADA	Nevada Prepaid Tuition Program	N/A (Nevada does not have a personal income tax)	No(6)	Board of Trustees of the College Savings Plans of Nevada and the State Treasurer's Office	$100	$25,587 (for a 4 yr contract)	www.nevadatreasurer.gov/Prepaid_Tuition/Prepaid_Home/	888-477-2667	Various tuition plan packages and contract payment options are available. The beneficiary must be in the 9th grade or below and 18 years old or younger at the time the contract is purchased.
PENNSYLVANIA	Pennsylvania 529 Guaranteed Savings Plan	$15,000 per beneficiary(8)	No(4)	Pennsylvania State Treasury Department	$50 by mail or $25 online	$511,758	www.pa529.com	800-440-4000	PA residents acquire units that increase in value over time to track average tuition increases in one of the several school categories as selected by the participant.
PRIVATE	Private College 529 Plan	N/A	N/A	This is not a state-sponsored program. The sponsor is Tuition Plan Consortium LLC, a non-profit membership organization comprised of participating colleges and universities	None	Cost of tuition and fees for 5-year at the highest cost participating institution	www.privatecollege529.com	888-718-7878	Certificates may be redeemed for a pre-determined percentage of tuition at any of the 300+ participating Institutions. Certificates must be held at least three years before redemption and redeemed within 30 years.
TEXAS	(1) Texas Tuition Promise Fund	N/A (Texas does not have a personal income tax)	No(4)	Texas Prepaid Higher Education Tuition Board; program manager is NorthStar Financial Services Group, LLC	$25	$90,984	www.texastuitionpromisefund.com	800-445-4723	Legal obligation of Texas public institutions to accept units for stated tuition value. The beneficiary may not use the tuition units within three years of the date the units were purchased
WASHINGTON	Guaranteed Education Tuition (GET)	N/A (Washington does not have a personal income tax)	No(4)	Washington State Student Achievement Council, with the State Treasurer as a member of the GET committee that oversees the program	$50 (None for Online application)	$106,400 for 800 units	www.get.wa.gov	800-955-2318	Tuition units purchased cannot be redeemed or refunded before two years from account opening with a few exceptions. Units must be used within 10 years after beneficiary's projected college entrance year or the first use of units, whichever is later
WEST VIRGINIA	SMART529 Prepaid Tuition Plan	All contributions	No(4) (Closed to new enrollment)	State Treasurer's Office	None	No longer accepting new enrollments	www.smart529.com	866-574-3542	The beneficiary must be in the 9th grade or below at the time of enrollment. It is closed to new enrollment

(1) The beneficiary or the parent/guardian must have been a resident for the 12 months prior to enrollment. The beneficiary must be within the age/grade requirements for the selected plan.

(2) The beneficiary or the parent/guardian must have been a resident for the 12 months prior to enrollment.

(3) The beneficiary must be a Kentucky resident at the time of program enrollment or have an intention to attend a Kentucky institution.

(4) The account holder or beneficiary must be a resident at the time of program enrollment.

(5) The beneficiary must be a resident at the time of program enrollment.

(6) The account owner or beneficiary must be a Nevada resident or account owner must be an alumnus of a Nevada college or university.

(7) The beneficiary must have been a resident for the 12 months prior to enrollment.

(8) Spouses filing jointly must each have at least $15,000 in income to claim the maximum $30,000 per-beneficiary deduction.

(9) The beneficiary must be a resident for at least 12 months prior to application or a non-resident child of an account owner who is resident.

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Coverdell Education Savings Account

(Formerly Education IRAs)

Starting in 1998, Congress passed Section 530 allowing the establishment of an Education IRA, which is a tax-exempt savings vehicle to offset the cost of college tuition. In 2001, Congress increased contributions that can be made to the IRA, expanded the definition of qualified expenses, and renamed Education IRAs "Coverdell Education Savings Accounts" after the late Senator Paul Coverdell from Georgia. The amount contributed to the Coverdell Education Savings Account grows tax-exempt and distributions are not taxable provided proceeds are used for qualified expenses.

Anyone[1], subject to adjusted gross income (AGI) limitations which precludes a donor from funding a Coverdell Education Savings Account if their AGI is over $110,000 single or $220,000 joint for 2020 and 2021, can contribute to an Coverdell Education Savings Account on behalf of a beneficiary[2] but the total contributions to any one beneficiary in any given year is $2,000[3]. While this amount is smaller and for the reasons discussed below, may be less attractive than other tax incentives to help defray the cost of education, the Coverdell Education Savings Account in some cases may be the best alternative. In fact, $2,000 contributed annually for 17 years with an annual return of 8% per year will grow to $72,900.

In 2002 the new tax law expanded what a Coverdell Education Savings Account could be used for. In addition to college tuition, qualifying expenses include secular and/or religious elementary and secondary school tuition (grades K-12), books, supplies, fees, computers, peripheral equipment, educational software, room and board, school uniforms, academic tutoring, transportation, and internet access charges when the internet is used for educational purposes.

The $2,000 non-deductible contribution must be in cash and cannot be invested in life insurance contracts. The donor is considered to have made a gift of a present interest which is eligible for the annual gift tax exclusion. Funds in a Coverdell Education Savings Account not utilized by the time a student turns 30 must either be distributed to the student (subject to tax on its earnings and a 10% penalty) or rolled over to a Coverdell Education Savings Account account for a family member of the student.

Since the contributions are relatively small, investment vehicles may be difficult to find and when found, subject to investment fees which make the contribution economically unsound.

Since the major benefit of a Coverdell Education Savings Account is the tax-free compounding of earnings, a family with several children may consider a plan to fund the youngest child's education with Coverdell Education Savings Accounts contributed to all the children. Utilizing the rollover provision, the eldest children's Coverdell Education Savings Accounts are rolled over into the youngest child's Coverdell Education Savings Account, creating a longer utilization of the tax-free compounding. Also, with more money in the Coverdell Education Savings Account, more attractive investment vehicles may be found.

Use of Coverdell Education Savings Accounts carry many disadvantages which may make them the least attractive vehicle for saving for college education as follows:

- The Coverdell Education Savings Account contribution is considered a gift by the donor. If the annual exclusions of the donor were already used for the beneficiary, the contribution

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will either utilize the donor's unified credit or if already utilized, cause a gift tax. If the gift is to skip a person (i.e.- grandparent to grandchild) Generation Skipping Transfer Tax may also be triggered.

- Distributions not used for qualified expenses are taxable to the beneficiary and are also subject to a 10% penalty.

- If inadvertent contributions are made to the accounts of the same beneficiary (i.e. grandparent and parent) and such contributions exceed $2,000 annually, a 6% excise tax may apply.

- The beneficiary can now take the American Opportunity Tax Credit, Lifetime Learning Credit or above-the-line deduction in the same year a distribution from their Coverdell Education Savings Account is taken. However, the credits cannot be claimed on the same distributions used to pay for qualified expenses.

- Must be distributed before the beneficiary reaches age 30.[4]

- No state income tax deductions for contributions to an ESA.

It should be noted that, utilization of non- resident Qualified State Tuition Plans (529 plans) may provide more benefits and less restrictions than the Coverdell Education Savings Account, especially now that the Tax Cuts and Jobs Act of 2017 has expanded the qualified higher education expenses to also include tuition expenses for public, private or religious schools from kindergarten through 12th Grade if made after December 31, 2017 of up to $10,000 per year per beneficiary [as mentioned under *College Tuition Savings Accounts* (page 6)]. Many states have also conformed to the Tax Cuts and Jobs Act of 2017, but some have not so check with your tax advisor.

Fortunately, one can rollover the Coverdell Education Savings Account to a 529 plan with the same beneficiary with no penalty.

Finally, the Coverdell Education Savings Account should not be confused with a regular IRA. Today, a regular IRA can be utilized to pay for qualified higher-education costs of a taxpayer and his/her family. Tax will be owed on the distribution, but there is no 10% penalty on early withdrawal. ■

1 Non-individuals can also make contributions not subject to the AGI limits.
2 The beneficiary must be under age 18. Donors cannot fund an account for an unborn child.
3 Starting January 1, 2002. It was scheduled to decrease from $2,000 to $500 after 2012. The American Taxpayer Relief Act extends it permanently.
4 Age limitations are waived for students with special needs.

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Interest Deduction On Education Loans

In 1997, Congress passed a host of tax incentives to subsidize higher education costs, which would start in 1998. One of these incentives is an above-the-line deduction for interest expense on qualified education loans. This benefit generally will apply only to lower to middle income taxpayers.

In order to claim the interest deduction which is of $2,500[1], the interest must be paid on a qualified education loan. A qualified education loan is a loan in which the proceeds are used to pay qualified higher education expenses. Qualified higher education expenses include tuition, fees, room and board, books, supplies, and transportation at an accredited post- secondary educational institution[2]. The loan must be made to the taxpayer, his or her spouse or dependent. The student must be enrolled in a degree program taking at least one-half the normal workload. However, the deduction is not available to an individual who, for that year is claimed as a dependent by another taxpayer.

The maximum deduction for interest paid on qualified education loans is reduced where Adjusted Gross Income (AGI)[3] exceeds $70,000 ($140,000 for joint filers) and is completely eliminated when AGI is over $85,000 ($170,000 for joint filers) for 2020.

In 2004, the IRS issued final regulations which states that the deduction for student loan interest may only be claimed for interest paid by the taxpayer on a qualified loan. However, if the interest is paid by a third party who is not legally obligated to make the payment, the taxpayer is treated as receiving the payment from the third party and, in turn, making the payment. Taxpayers may not claim a deduction for interest paid in conjunction with money borrowed from a relative or friend to pay tuition and related expenses[4]. In addition, if a parent makes a payment on a loan for which only the child is liable, the parent is not entitled to a deduction.

Under the Setting Every Community Up for Retirement Enhancement (SECURE) Act, the 529 plan was expanded to allow tax-free distributions made after December 31, 2018 from the plan to be used to cover expenses associated with registered apprenticeships and up to $10,000 can be used towards the repayment of principal and interest of qualified student loans. The $10,000 limit is an aggregate lifetime limit that applies to the 529 plan beneficiary and each of the beneficiary's siblings. Siblings include a brother, sister, stepbrother or stepsister. However, interest paid by the taxpayer during the tax year on a qualified loan is not eligible for the student loan interest deduction to the extent that the interest was paid from a tax-free distribution from a 529 plan.

For New York State income tax purposes, distributions from a New York 529 college savings program to pay for these expenses are considered nonqualified distributions. Therefore, these distributions will be subject to recapture to the extent of deductions taken previously on the contributions made in prior years. For the other states, please check with your tax advisor before making a distributions.

EXCLUSION ON INCOME FROM STUDENT LOAN FORGIVENESS

Generally, student loan forgiveness is taxable. The American Rescue Plan of 2021 signed into law by the President on March 11, 2021 provides relief to individual taxpayers by excluding any amount from the forgiveness of qualified student loans in gross income. The new exclusion of income from discharged student loans occurring after December 31, 2020 and ending on December 31, 2025 replaces

1 The American Taxpayer Relief Act permanently suspends the 60-month rule for the $2,500 above-the-line student loan interest deduction.
2Offers credit towards a Bachelors Degree, Associates Degree or any other post-secondary credential.
3 Modified adjusted gross income means the adjusted gross income of the taxpayer for the taxable year, which is determined after taking into account the inclusions, exclusions, deductions and limitations allowed, but before taking into account the interest deduction.
4 Related persons include parents, grandparents, brothers and sisters, half-brothers and half-sisters, spouse, children or grandchildren.

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the existing exclusion for income from student loans discharged after 2017 because of the student's death or total and permanent disability.

Under the provisions in the Act, a qualified student loan includes:

- A loan provided expressly for post-secondary educational expenses whether provided to the borrower through the college or university or directly to the borrower, and made, insured, or guaranteed by the federal government, a U.S. state, or any eligible education institution.
- Private education loan made by a bank, credit union, or other person engaged in the business of soliciting, making, or extending such loans of the Trust in Lending Act.
- A loan made by a tax-exempt educational organization if the loan is either (1) part of an agreement with, and funded by, the government, eligible educational institution, or private educational lender, or (2) part of a program to encourage students to fulfill a public service work requirement including serving in occupations with unmet needs or in areas with unmet needs where the services provided by the students (or former students) are for or under the direction of a governmental unit or a tax-exempt organization exempt under IRC §501(a).
- A loan made by tax-exempt educational organization to refinance a loan to an individual in attending the organization but only if the refinancing loan is pursuant to refinancing program of a tax-exempt educational organization encouraging students to fulfill a public service work requirement as describe above.

In addition, an Individual taxpayer can exclude up to $5,250 from wages each year student loans paid by an employer under an educational assistance program which has been extended to December 31, 2025 under the CAA of 2021 (see footnote #3 on page 36).

1 The American Taxpayer Relief Act permanently suspends the 60-month rule for the $2,500 above-the-line student loan interest deduction.
2Offers credit towards a Bachelors Degree, Associates Degree or any other post-secondary credential.
3 Modified adjusted gross income means the adjusted gross income of the taxpayer for the taxable year, which is determined after taking into account the inclusions, exclusions, deductions and limitations allowed, but before taking into account the interest deduction.
4 Related persons include parents, grandparents, brothers and sisters, half-brothers and half-sisters, spouse, children or grandchildren.

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After September 11th, Can You Save For Education and Be Patriotic at the Same Time?

THE SHORT ANSWER IS YES! Interest income on qualified United States Savings Bonds may be excluded from taxable income when used to pay qualified higher education expenses during the year when the redemption occurs. The long answer as to what bonds qualify, what are qualified higher education expenses, when can interest be excluded, and what rates of return you can expect follows.

Qualified United States Savings Bonds are any United States Savings Bonds issued after 1989 (series EE and Series I (inflation-indexed)) to an individual who is at least age 24 before the date of issuance. Since the date of issuance is deemed the first day of the month the bonds are purchased, someone who is just 24 should wait until the month following his/her birthday to acquire the bonds.

Qualified higher education expenses are tuition and fees required for enrollment or attendance at an eligible educational institution or vocational school. It also includes contributions to a 529 Plan and to a Coverdell Education Savings Account. However, it does not include room and board or travel expenses to or from college. An eligible educational institution is generally any accredited post-secondary College or University located in The United States or affiliated with such College or University.

Interest income on the bonds is excludable from taxable income when bonds are redeemed and the proceeds are used for qualified higher education expenses. However, this exclusion is phased out for taxpayer's with modified adjusted gross income[1] of $97,350 and above for single, $153,550 and above for joint.[2] This in effect limits the benefit to low and middle income taxpayers.

Other rules prevent creative planning to utilize the exclusion. In order to qualify the taxpayer must be the original and sole owner of the bonds; one cannot purchase the bonds from another individual. This prevents children owning the bonds and transferring them to their parents when redeemed from getting preferential treatment.

Series EE Bonds are currently paying 0.10% with a 30 year maturity. Series I Bonds are currently paying 3.54% with a 30 year maturity. Even if not used for qualified education expenses, interest can be deferred until redeemed and are state tax exempt. If bought in the child's name, interest can be deferred until college age and then taxed at the lower child's tax rate. The child's standard deduction and the potential utilization of the Hope American Opportunity Tax Credit and Lifetime Learning Credits may shelter most if not all of the deferred interest income provided the child has little additional taxable income. You can access information regarding yields, purchasing and just about anything else you want to know about U. S. Savings Bonds by going to www.savingsbonds.gov.

ARE U.S. SAVINGS BONDS A VIABLE WAY TO SAVE FOR COLLEGE? In the right circumstances, Yes! So, support your Country! Buy U.S. Savings Bonds, and perhaps even save money for college at the same time. ■

1 Modified adjusted gross income means adjusted gross income plus exclusion for adoption expense, and foreign earned income as well as the exclusion for interest on U.S. Savings Bonds.
2 The phase-out levels are for 2020.
3 Rates good for purchases made between May 1, 2021 to October 31, 2021. Should be held a minimum of 5 years to avoid 3 months interest penalty. The rate is a variable rate which resets every six months.

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How Employers Can Provide Tax Free Education Benefits To Employees

Companies can provide a valuable fringe benefit for their employees by paying for their education costs. Although there are several methods a firm can choose to provide this benefit, there are some which are more common than others.

The three most commonly used methods are: scholarships and grants under IRC §117[1], education assistance programs under §127 and working condition fringe benefits under §132. Each method will provide tax free education benefits to the firm's employees, provided the specific criteria of each code section are met. The methods are not mutually exclusive, and can be mixed and matched to provide greater benefits than one method might provide.

METHOD I:
Scholarships and grants under §117 must meet the following criteria to ensure non-taxability. They are:

1. The scholarship must be used for "qualified tuition and related expenses."
2. The student must be a degree candidate at a qualified educational institution.

"Related expenses" include tuition, enrollment fees, books, supplies and equipment required for courses of instruction. Other expenses such as travel, room and board are excluded. Any scholarship not utilized for qualified expenses is taxable to the student.

The employer can offer the scholarship not only to the employee, but to the spouse and children as well. Care must be exercised, however, not to link the scholarship with past, present or future employment services. Failure to do so would subject the employee to taxable income. The same outcome would occur if the education of the student employee was shown to be primarily for the employer's benefit. To avoid this result, companies can establish private foundations to offer scholarships, and have these foundations select the recipients and handle disbursements. As long as the scholarships are awarded on an objective and nondiscriminatory basis, and comply with foundation requirements, the scholarship will not be taxable.

METHOD II:
Education assistance programs under §127 allow annual education benefits of up to $5,250[2] per individual to employees (spouses and dependents are not covered). The benefit can be used for both graduate and non graduate courses. Similar to scholarships under §117, "educational assistance" is restricted to direct educational costs such as tuition, fees, books, supplies and equipment (travel room and board are excluded). Eligible student loan repayment made before January 1, 2021 will be an eligible cost under the CARE Act Sec. 2206. There is no requirement, however, for the student to be a degree candidate as under §117, nor does the education have to be job-related (see Method III).

The major drawback to §127 plans is that they can be quite costly and burdensome for employers to administer. They require annual tax return filings (Form 5500) and a formal written plan with reasonable notice to eligible employees. They may not be discriminatory in favor of highly compensated employees, and not more than 5% of the program's benefits can be allocated to owners/officers. However, these plans are flexible with respect to setting their own eligibility requirements, such as limiting benefits to post graduate education only. For example, a recent IRS letter ruling allowed a law firm to provide all non lawyer employees up to a $5,250 annual reimbursement for principal and interest on their law school student loans. Another feature is that there is no annual funding requirement. A strapped company can put the plan on hold if need be until cash flow improves.

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METHOD III:
Perhaps the best alternative in terms of ease of implementation and flexibility is the working condition fringe benefit under §132. The only requirement for excludability from the employee's gross income is that the benefit be related to a cost that would be deductible as an "ordinary and necessary" business expense under §162. Under the Regs. §1.162-5, these would include not only direct education expenses, but also travel, meals and lodging incurred in order to obtain education. In addition, this benefit does not have the other disadvantages of the other two methods discussed above. Thus, there is no maximum monetary limit, it may be discriminatory with respect to the type of employees covered (no spouses or dependents, however), and it may include owners/officers. No written plan is required, nor are there annual filings. Finally, the student employee does not have to be a degree candidate.

QUALIFYING WORK-RELATED EDUCATION
If employees receive educational assistance from the employers under education assistance program, employees can exclude up to $5,250 of those benefits each year.[3] However, if the benefits over $5,250 qualify as a working condition fringe benefit, employers may treat the expenses tax free to the employees if following conditions are met;

1. They are employed;

2. They already meet the minimum requirements of their job, business, or profession;

3. The course maintains or improves their job or professional skills, or they are required by their employer or by law to take the course to keep their present salary or position; AND

4. The course does not lead to qualification for a new profession or business. The cost of courses preparing them for a new profession is not deductible, even if they take them to improve their skills or to meet their employer's requirements.

The same criteria apply to employees who have unreimbursed education expenses. They may deduct the following education costs as a miscellaneous itemized deduction subject to the 2% adjusted gross income limitation on Schedule A to the extent that the total education expenses exceeds any reimbursements: (However, starting in 2018 and continuing through 2025, taxpayers will not be able to deduct expenses such as unreimbursed education expenses due to the elimination of 2% miscellaneous itemized deductions under the Tax Cuts and Jobs Act.)

1. Tuition, textbooks, fees, equipment, and other aids required by the courses;

2. Local transportation costs;

3. Travel to and from a school away from home, and lodging and 50% of meals while at school away from home. ■

1 For a detailed article regarding this, see the subsequent article.
2 Income exclusion of $5,250 was scheduled to expire after 2010. The 2010 Tax Relief Act extends this provision through December 31, 2012, and the American Taxpayer Relief Act of 2012 extends it permanently.
3 The provision allowing employers to pay for employee's student loans up to $5,250 per year with such amounts being excluded from the employee's taxable income has been extended to December 31, 2025 under the CAA of 2021.

Taxation of Scholarships, Fellowships and Grants

Congratulations! Your child not only got accepted to the college of his/her choice, but was awarded a scholarship as well. It's a good thing too, with tuition being so high. This will mitigate the cost somewhat. Come April 15th, your accountant starts asking questions about the scholarship and a thought passes through your mind, "Am I going to have to pay taxes on this? That's ridiculous!"

Ridiculous or not, in certain cases, scholarships, fellowships and grants are taxable. In what instances and what you may be able to do to mitigate the tax problem will be the focus of this article.

The terms scholarships, fellowships, grants, awards and allowances ("Scholarship") are used interchangeably and generally mean nontaxable financial assistance. However, these terms may also describe situations where the recipient is obligated to provide services (i.e. tutoring) wherein the payments would become taxable as compensation for employment.

Generally, the source of the financial aid is not important. It may come from the government or private organizations. The financial aid may be based on financial need or based on scholastic achievement or athletic ability.

For income tax purposes, the following criteria must be met to insure non-taxability. They are:

1. The student is a degree candidate; and

2. The "Scholarship" must be used for qualified expenses[1]

As long as the "Scholarship" is designated for qualified expenses as opposed to specifically designated for room and board, the criteria[(2)] above will be satisfied. A direct tracing is not required for criteria. There is a presumption that the "Scholarship" was used to pay all qualified expenses the student incurred during the year. Any "Scholarship" not utilized for qualified expenses would be taxable income to the student.

In addition, any "Scholarship" that is conditioned on the performance of services[2] by the student is taxable as compensation to that student. The provider usually will determine the amount that is treated as compensation and report such to the student on a Form W-2 or Form 1099.

Taxable scholarships and fellowship grants that are used to pay room and board and are not reported as wages on Form W-2 can be subject to kiddie tax and even the Alternative Minimum Tax (AMT).

Kiddie tax is a tax scheme that imposes tax on child's unearned income with parent's marginal tax rate. It was enacted in 1986 to discourage parents from shifting investment income to their children in order to take advantage of a child's lower marginal tax rates.

For 2020, this tax applies to children younger than age 18 and whose earned income does not exceed half of their support, and to students ages 19 to 23 whose earned income does not exceed half of their support. The kiddie tax applies to any qualified child that has unearned income of more than $2,200, does not file a joint tax return, and has at least on parent living at the end of the year.

Any income that is not earned income is potentially subject to the kiddie tax. Earned income consists of wages, salaries, and other similar amounts received as compensation for personal services rendered.

Taxable scholarships and fellowship grants that are not reported on Form W-2 are constituted as unearned income. In some instances, AMT can also apply to children subject to the kiddie tax.

Employees of educational institutions usually receive tuition discounts as an exchange benefit. These discounts are tax-free if the following are met:

1. The tuition discount applies to education below the graduate level[3];

2. Highly compensated employees do not get more discounts than other employees; and

3. The tuition discount does not represent compensation for services required to be rendered by the student.

The above applies even if the employee's spouse or children are the beneficiaries. It also applies if the employee works at one educational institution, but the tuition discount applies at another educational institution.

Finally, students may work in what are referred to as co-op, internships and/or work-study programs. These programs provide jobs by the school itself or in tandem with private employers. They may even qualify for credit towards a degree. These programs are the epitome of compensation for services rendered and are fully taxable for income tax purposes. If the student is employed directly by the educational institution and is enrolled and regularly attending classes Social Security taxes and Medicare taxes generally do not apply[4].

If the "scholarships" or work-study programs are taxable, the income taxes may be mitigated if not entirely eliminated by the use of the Hope Scholarship credit, Lifetime Learning Credits or "above-the-line deduction" for interest expense on student loans. Please see the previous articles written specifically on these topics for more information. ■

1 Tuition, enrollment fees, books, supplies and equipment, including expenses for the purchase of a computer or peripheral equipment, computer software, and Internet access or related services if the items are used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible educational institution. Room and board is not considered a qualified expense.
2 Tutoring, research, etc; except, for scholarships paid after December 31, 2001 from the National Health Services Corps. Scholarship program (NHSC Scholarship Program) and the Armed Forces Health Professions Scholarship and Financial Assistance Program (Armed Forces Scholarship Program) will not be taxable even though paid for compensation for services, and this treatment had been extended permanently by the American Taxpayer Relief Act.
3 The employee-student may take graduate courses, but the employee's spouse or children cannot utilize the discount on a tax-free basis for graduate studies.
4 Certain state institutions may require Social Security and Medicare taxes to apply.

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Losses on 529 College Tuition Plans

With the recent volatility in broad stock market indexes, many families who diligently saved for their children's higher education expenses are experiencing stress from the dual prospect of higher college costs and diminished 529 plan values. While tuition inflation and asset deflation are not a welcome occurrence, the temptation to distribute plan assets and pay college expenses out of pocket can have potential negative ramifications.

Many news publications have been discussing the tax advantages of recognizing 529 plan losses. In a plan that has declined in value, if the funds are fully distributed, a miscellaneous itemized deduction subject to a 2% floor on adjusted gross income was available for the difference between the basis of the 529 plan and the amounts distributed. However, that benefit was severely limited for taxpayers subject to the Alternative Minimum Tax, which does not allow miscellaneous itemized deductions subject to the 2% floor. The 2% miscellaneous itemized deductions have been suspended under the Tax Cuts and Job Act for tax years beginning after December 31, 2017 and through December 31, 2025.

There are also gift tax considerations that should not be overlooked. When their children's 529 plans were initially established, many parents decided to take advantage of the five-year gift tax exclusion[1] to remove assets from their estate while planning for future college expenses. If the account is fully distributed within that period, the annual exclusion for the child is still considered utilized, notwithstanding that the funds were lost due to market conditions.

If the parent, at a further date, decides to re- invest funds into the 529 plan within the remainder of the five-year period, that transfer will be subject to gift tax. If the funds were not re-invested back into the 529 plan, but subsequently used to pay for college expenses within the five-year period, amounts used to pay for items such as room and board will be subject to gift tax as well. This is because only tuition paid directly to an eligible institution is not deemed a taxable gift. In addition to the federal ramification, on the state level there is potential for a state tax deduction recapture if a deduction has been previously taken on the contribution to the plan.

Example: Parent invests $60,000 into a 529 plan for his/her child. The fund subsequently declines in value three years later to $40,000. The parent decides to fully distribute the remaining funds out of the 529 plan. For taxable years from 2018 until 2025, he/she will not receive the benefit of the itemized deduction for the loss of $20,000 in account value.

In year five, tuition, room and board are paid on behalf of the child. Since the gift tax annual exclusion has been exhausted due to the initial $60,000 contribution to the 529 plan, the portion for room and board is subject to gift tax.

To summarize: Since there is no more income tax benefit when you distribute the entire fund to take the loss, parents may want to continue with the funds in the plan, although they may consider changing the specific investments within the plan. ■

1 An account owner could invest $75,000 ($15,000 annual gift exclusion for five years) in 2021 into a beneficiary's 529 plan without incurring gift taxes. Any additional gifts to the beneficiary in that five year period will be subject to gift taxes.

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