



# Your Quick Guide to a 529 Plan

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# What are 529 Plans?



529 plans are qualified tuition programs that allow prepayment of higher education costs on a tax favored basis.

## There are two types of programs:

**Prepaid Plans:** which allow you to buy college tuition credits at present tuition rates for specific colleges.

**Savings Plans:** which operate like an investment account that you make contributions to and then invest the money in stocks or bonds.

## Who are they for?

If you have a child, grandchild or extended family member who's going to attend post-secondary education in the future, a 529 plan is a great option to start saving for their education.





# What are the benefits of 529 saving plans?

1. Ability to use the funds for a wide range of educational expenses at eligible schools
2. Earnings on the account are not taxed while in the account
3. Withdrawals of funds for qualified education expenses are generally tax free
4. State tax deductions (different state to state)
5. Leftover funds not used can be transferred to a 529 plan for another family member tax free
6. If conditions are met, the 529 can be rolled into a Roth IRA for the original beneficiary tax free



## Which type of plan is right for you?

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For most people, the 529 savings plans offer the most flexibility and return on their money. Prepaid 529 plans only allow you to pay for tuition at a specific college ahead of time.

# What are “qualified education expenses” that 529 saving plans can be used to pay for?



- Postsecondary Tuition
- Books, Supplies, and Equipment
- Mandatory Fees
- Room & Board
- Computers, Internet, and Software
- Principal or Interest of Student Loan
- Up to \$10,000 of tuition for Elementary & Secondary School
- Special Need Services

## Which Schools are Eligible?

Any postsecondary school that is eligible to participate in a student aid program of the Department of Education. This includes nearly all accredited public, nonprofit and for-profit postsecondary institutions. Tuition expenses for attendance at an elementary or secondary public, private or religious school are also a qualified use (Up to \$10,000 per year).






# What are some limits or downsides of 529 plans?

- Withdrawals for noneducation expenses are subject to normal tax rates and a 10% penalty
- If your child is going to college in 2-4 years, it may be better to invest in a traditional mutual fund because fees and restrictions on the money are far less

If you are considering a 529 plan or have any questions, please contact Charlie Brackett at [cbrackett@rushton.cpa](mailto:cbrackett@rushton.cpa)



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