



ALLIANT ADVISORS

FIND DIRECTION



The Navigator

Important Markers To Guide Your Way

September 2008

School is in session, and this month's edition of e-tips discusses the features and benefits of saving for college with a 529 Plan. As your trusted advisors, feel free to call us to assist you in reviewing specific features of any plans you might be considering.

We hope you enjoy and value this information. If you do not wish to receive this information by e-mail, please respond to this message and we will remove you from our list. For more information about our services, visit www.alliant-advisors.com or call your local Alliant Advisors office.

The Alliant Team

Securing your child's future: 529 Plans

If you have a child (or a grandchild) who is going to attend college in the future, you have probably heard about qualified tuition programs, also known as 529 plans, which allow prepayment of higher education costs on a tax-favored basis.

There are two types of programs: prepaid plans, which allow you to buy tuition credits or certificates at present tuition rates, even though the beneficiary (child) won't be starting college for some time; and savings plans, which depend on the investment performance of the fund(s) you place your contributions in.

You don't get a federal deduction for the contribution, but the earnings on the account aren't taxed while the funds are in the program. You can change the beneficiary or roll over the funds in the program to another plan for the same or a different beneficiary without income tax consequences.

Distributions from the program are tax-free if they don't exceed the student's qualified higher education expenses. These include tuition, fees, books, supplies, and required equipment. Reasonable room and board is also a qualified expense if the student is enrolled at least half-time.

Distributions in excess of qualified expenses are taxed to the beneficiary to the extent that they represent earnings on the account. A 10% penalty tax will also be imposed.

Eligible schools include colleges, universities, vocational schools, or other postsecondary schools eligible to participate in a student aid program of the Department of Education. This includes nearly all accredited public, nonprofit, and proprietary (for-profit) postsecondary institutions. A school should be able to tell you whether it qualifies.

The contributions you make to the qualified tuition program are treated as gifts to the student, but the contributions qualify for the annual gift tax exclusion, which is \$12,000 for 2008. If your contributions in a year exceed the exclusion amount, you can elect to take the contributions into account ratably over a five-year period starting with the year of the contributions. Thus, assuming you make no other gifts to that beneficiary, you could contribute up to \$60,000 for each beneficiary in 2008 without gift tax. (In that case, any additional contributions during the next four years would be subject to gift tax, except to the extent that the exclusion amount increases.) You and your spouse together could contribute \$120,000 per beneficiary, subject to any contribution limits imposed by the plan.

A distribution from a qualified program isn't subject to gift tax, but a change in beneficiary or rollover to the account of a new beneficiary may be.

If you would like to further discuss how the qualified tuition program might help to meet your child's future college costs, please give us a call at 866-624-9519 or visit www.savingforcollege.com.
