Section 529 education savings plans

What is a Section 529 plan?
Also known as qualified state tuition programs, 529 plans are state-sponsored, tax-advantaged investment programs that help you save for your child’s education. Assets can be withdrawn from the plan federal income tax-free when used for qualified education expenses. Historically, qualified expenses were limited to higher education, but due to a 2017 tax law change, up to $10,000 of K-12 tuition is now included. Qualified State Tuition Programs, given special tax status under Section 529 of the federal Internal Revenue Code, generally fall into two categories: (1) prepaid tuition plans and (2) tuition savings plans.

1. Prepaid tuition plans
The prepaid tuition plans, sometimes called guaranteed savings plans, allow for the pre-purchase of tuition based on today’s rates and are then paid out at the future cost when the beneficiary is in college. This plan protects you from the rising costs of college education — the "return" on your investment is the difference between the college cost when your child attends and the prepaid tuition cost. These plans are not offered through RBC Wealth Management.

2. Tuition savings plans
Tuition savings plans allow you to contribute to an “investment pool” — or a stock/bond portfolio. The growth in tuition savings plans is a result of the market performance of the underlying investments. Most savings plans offer a variety of age-based investment options with underlying investments becoming more conservative as the beneficiary gets closer to college-age.

What are 529 qualified expenses?
Money saved in a 529 plan can be used to pay for certain expenses associated with education. For college or other post-secondary training institutions, this includes tuition and some room and board expenses. Computers, related equipment and services are also considered qualified expenses if they are used primarily by the beneficiary while the beneficiary is enrolled at an eligible higher educational institution. Up to $10,000 per year may also be withdrawn for tuition expenses for elementary, middle and high schools (public, private or religious).

Who can be a beneficiary?
You can establish an account for yourself, your child, grandchild, spouse, another relative, or even someone not related to you, and the beneficiary may be of any age. Only one person may establish each account. Joint accounts are not permitted, and corporations may not establish accounts.

What are the benefits of 529 plans?
Unlike the Coverdell Education Savings Account, which sets a maximum adjusted gross income in order to qualify, 529 plans have no adjusted gross income limits; anyone can establish and contribute to a 529 plan. Your contributions to the plan can always be withdrawn federal income tax-free, while the earnings can be withdrawn federal tax-free if the proceeds are used for qualified higher or qualified K-12 education expenses.*

Who controls the assets?
You maintain control of the plan’s assets throughout the life of the account. You may withdraw funds if not used for qualified expenses, although this withdrawal is subject to a penalty (typically 10%) on the investment gains from the plan, plus tax on the gains. In addition, if the beneficiary dies, becomes disabled, or receives a college scholarship, the contributor can withdraw the funds without penalty. He or she is still subject to ordinary income taxation at the contributor’s rate, however.

You have flexibility
You can transfer to another 529 plan or change investment options without changing the beneficiary. You are limited to one rollover in a 12-month period and two investment changes per calendar year.

What about state taxes?
Depending upon a particular state’s program, certain state or local tax advantages may be available to resident participants. Some states allow the contributor to deduct contributions on a state tax return, while other states may forgo the tax benefit and may instead...
offer matching grants. Consult your tax advisor for more information on the state tax requirements of a specific plan. Consider these benefits carefully before investing out of state.

**What are the gift tax advantages of 529 plans?**

Normally, a gift of more than $15,000 made by an individual to a single person in one year is subject to federal gift tax. 529 plans allow you to gift up to $15,000 annually without paying gift taxes. You may also accelerate up to five years’ worth of the annual exclusion amount by contributing up to $75,000 per beneficiary or $150,000 for married couples filing jointly in the first year of the five year period. Any further gifts during this period may be subject to gift tax. Portions of the accelerated gift may also be subject to an add-back feature in the event of death of the gift or prior to the five year acceleration period. You must elect to treat the entire gift as a series of five equal annual gifts, however, the cumulative total plan contribution varies by state.

**What if the beneficiary does not attend college?**

You can name another member of the beneficiary’s family — the original beneficiary’s sibling, parent, child, or other family member — as the new beneficiary of the account without any income tax consequences. If the new beneficiary is of a younger generation in the family than the original beneficiary, a federal generation-skipping gift tax may apply for the year in which the beneficiary change is made. In this situation, you should consult your tax advisor.

**How much will I pay for a 529 plan?**

Like mutual funds, 529 plans may charge a sales charge. In addition, you may pay an annual fee for participating in the plan. You will also pay administrative and management fees that are incorporated into the price of the investment product much like the expense ratio of a mutual fund. Consult the plan documents for a more comprehensive explanation of the fees.

**How can I get additional information regarding 529 plans?**

Contact your RBC Wealth Management® financial advisor.