

Burnham Harbor
PRIVATE WEALTH

Understanding 529 Plans

A 529 plan is a tax-advantaged savings vehicle designed to encourage saving for future education expenses. Named after Section 529 of the Internal Revenue Code, these plans offer significant benefits for individuals aiming to fund higher education costs.

Key Features of 529 Plans

- **Tax Advantages**: Contributions to a 529 plan grow tax-free, and withdrawals for qualified education expenses are also tax-free at the federal level. Additionally, many states offer tax deductions or credits for contributions to their own 529 plans.
- **Flexibility**: Funds can be used at most accredited colleges and universities, as well as many technical, trade, vocational, and career schools. This includes institutions both within and outside the United States. Additionally, funds can be used for K-12 education and Student Loan Repayment, with some limitations.
- **Control**: The account owner retains control over the funds, determining the timing and amount of distributions. This ensures that the savings are used as intended for educational purposes.

Types of 529 Plans

- **College Savings Plans**: These function similarly to investment accounts, where contributions are invested in mutual funds or similar investments. The account's value can fluctuate based on the performance of these investments. Withdrawals can be used for a wide range of qualified higher education expenses, including tuition, fees, room, and board.
- **Prepaid Tuition Plans**: These allow individuals to prepay future tuition at today's rates for certain colleges or universities, effectively locking in current prices. However, they often have residency requirements and may limit the beneficiary's choice of institutions.





Burnham Harbor
PRIVATE WEALTH

Considerations When Choosing a 529 Plan

By investing in a 529 plan, you can enjoy tax-free growth on your contributions and tax-free withdrawals for qualified education expenses. Additionally, depending on the state's tax policies, there may be state tax deductions or credits available for contributions to certain 529 plans.

When selecting a 529 plan, consider the following factors:

- **Investment Options**: Look for plans that offer a diverse range of investment choices to align with your risk tolerance and financial goals.
- **Fees and Expenses**: Lower fees can significantly impact the growth of your savings over time. It's essential to compare the costs associated with different plans.
- **State Tax Benefits**: Some states offer tax incentives for contributing to their own 529 plans. However, it's crucial to evaluate whether these benefits outweigh potential advantages of other states' plans.

Income and Contribution Limits

Unlike other tax-advantaged accounts, 529 plans do not have income limits for contributors. This means that individuals at any income level can open and contribute to a 529 plan. However, there are contribution limits:

- Each state sets its own contribution limit, generally ranging from **$235,000** to over **$500,000** per beneficiary. Contributions beyond these limits are not allowed, but investment growth can still continue.
- **2025 Annual Gift Tax Exclusion**: Contributions up to **$18,000** per year (or **$36,000** for married couples) per beneficiary do not trigger gift tax. You can also contribute up to five years' worth of this exclusion (**$90,000** single/**$180,000** married) at once without incurring gift tax.





Burnham Harbor
PRIVATE WEALTH

Taxability and Withdrawal Rules

While contributions to a 529 plan are not tax-deductible at the federal level, many states offer tax deductions or credits for contributions to their own state-sponsored plans. However, tax treatment varies by state, so it's important to review state-specific rules.

- **Tax-Free Growth**: Earnings in a 529 plan grow tax-free if used for qualified expenses.
- **Tax-Free Withdrawals**: Withdrawals for qualified education expenses (tuition, fees, books, supplies, and room and board for students enrolled at least half-time) are tax-free at the federal level and often at the state level.
- **Non-Qualified Withdrawals**: If funds are withdrawn for non-educational purposes, earnings are subject to federal income tax plus a 10% penalty. The penalty does not apply if the beneficiary receives a scholarship, attends a U.S. military academy, or in cases of disability or death.

What Can a 529 Plan Be Used For?

Funds in a 529 plan can be used for a variety of educational expenses, including:

- **College and university costs**: Tuition, fees, books, supplies, computers, internet access, and room and board (if the student is enrolled at least half-time).
- **K-12 tuition**: Up to $10,000 per year per beneficiary can be used for private or religious elementary and secondary school tuition.
- **Apprenticeship programs**: Registered apprenticeship programs with the U.S. **Department of Labor can qualify for tax-free withdrawals.**
- **Student loan repayment**: Up to $10,000 can be used to pay off student loans for the beneficiary or their siblings.





Burnham Harbor
PRIVATE WEALTH

A 529 college savings plan is a valuable tool for Burnham Harbor residents aiming to prepare for future educational expenses. By understanding the features, benefits, and considerations associated with these plans—including income limits, contribution limits, taxability, and qualified uses—individuals can make informed decisions that align with their financial goals and provide substantial support for their beneficiaries' educational endeavors.

This information is for general informational purposes only and should not be considered investment advice or a specific tax or financial planning recommendation. It does not constitute an offer to provide financial services. Consult with qualified tax, legal, and financial professionals before implementing any estate planning strategies. Securities offered through Sanctuary Securities, Inc., Member FINRA, SIPC. Advisory services offered through Sanctuary Advisors, LLC., an SEC Registered Investment Advisor. Burnham Harbor Private Wealth is a DBA of Sanctuary Securities, Inc. and Sanctuary Advisors, LLC.

