

PLANNING FOR COLLEGE

It's Your Money
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The American dream of sending your child to college is getting expensive. Tuition at private colleges begins in the \$25,000 per-year range and goes up from there. Add room and board, books, fees and other expenses and you've got a real challenge on your hands!

"You can't start planning too early to avoid headaches and unnecessary debt", relates Mike Epema, Director of Financial Aid at Dordt College in Sioux Center, Iowa. "The best thing students can do is take college preparatory classes and get good grades. Parents should talk to their accountants. Income tax issues generally overrule college aid issues."

There are many tools and strategies to consider, but I'd like to focus on the 529 Plan. The name is taken from the section of the Internal Revenue Code (529) that allows states to adopt tax-exempt, prepaid tuition savings plans.

My wife and I established a 529 plan for our first grandchild ten years ago. Our perceptive children, all of whom have had post-high school education, saw this as an incentive. We set up our 12th plan last year. The primary benefits of the plan are:

- **Federal tax benefits** Although contributions are not deductible on your income tax return, your investment grows tax-deferred, and distributions to pay for the beneficiary's qualified educational expenses (tuition, room and board, books, fees and supplies) are distributed tax-free
- **State tax benefits** Some states such as Oregon and Iowa allow a limited income tax deduction for contributions to a 529 plan. Others, like California, don't allow a deduction for the contribution but do mirror the federal plan in terms of tax-free withdrawals for qualified expenses.
- **Flexible** You can choose any state's plan, select investment options, and even change the beneficiary of the account. Beneficiaries can attend any institution of higher education (public or private) in the United States that qualifies under federal guidelines. Certain community colleges and trade or vocational schools may also qualify.
- **Control** The named beneficiary has no rights to the funds. You decide when withdrawals are taken and for what purpose. Many plans even allow you to reclaim the funds, although you may be subject to income tax and an additional 10% penalty tax.

Note that if a withdrawal from a 529 Plan is not used to pay qualified higher education expenses, income tax is due on the growth in addition to a 10-percent penalty.

Grandparents Arise!

The 529 Plan may be the ideal way for grandparents to help their grandchildren pursue higher education. It also decreases Grandpa and Grandma's estate. Donors may contribute up to \$13,000 per year per recipient. A special 529 provision allows gifts up to \$65,000 for a beneficiary in a single year and to treat the gift as having been made over a 5-year period. If you have 16 grandchildren, you can make more than \$1 million vanish from your taxable estate in one sitting. Maybe the best part is that the grandkids can't spend the money! It is ear-marked for their education, and you still have the power to change the beneficiary. If your death occurs within the 5-year period, a portion of the transferred amount will be included in your estate for tax purposes.

Let's take this estate reduction strategy one step further. If you've done your homework you already have designated someone as your power of attorney and/or successive trustee of your living revocable trust. This person has the power to conduct your financial affairs in the event of your incapacity. Ask your attorney if your documents would allow this person to maximize 529 Plan gifts

to your heirs in the event your death becomes imminent. A chunk could be removed from your estate and you would have left a very attractive legacy for grandchildren or great-grandchildren.

Where do I sign?

For more information concerning your state, go to www.collegesavings.org. Simply click on your state and you will receive far more information than this article contains. You will also be directed to state-specific websites and toll-free numbers that can give you all the forms you need to begin a 529 Plan. If you're not the dot-com type, call the financial aid director at the college of your choice or your investment advisor.

Verlyn De Wit helps successful dairy producers make smart decisions about their money. He can be reached toll-free at 1-888-468-1728 by email at vdewit@sammonsrep.com or "snail-mail" at 1270 Eastside Dr., Sioux Center, IA 51250. Securities offered through Sammons Securities Co., LLC. 4261 Park Road, Ann Arbor, MI 48103. Member FINRA and SIPC.

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