Palisade
CAPITAL MANAGEMENT

New Features Create Additional Appeal for 529 College Savings Plans

It is no secret that college costs are rising, typically at a rate that exceeds inflation. If you would like to help support the education savings efforts of grandchildren, nieces, nephews, or other loved ones, assisting them with a 529 college savings plan can be an effective tool. College savings plans have been growing in popularity since the late 1980s. The creation of Section 529 by the IRS in the late 1990s provided even greater incentive to save through tax-deferred treatment of 529 plan earnings. Current 529 plans typically offer several features and benefits, including:

1. You do not need to be a parent or even a relative to open one.
2. The account remains in your control, so you decide how and when funds will be used, and you can change the beneficiary.
3. You can contribute a maximum of $305,000* over the lifetime of the account.
4. Depending on your income level and state of residence, you may qualify for a state income tax deduction of $10,000* (per taxpayer, per year).
5. Earnings grow free of federal income taxes and withdrawals are tax free if they are used for qualified higher education expenses.

6. Up to $10,000 per year can be used for tuition for eligible secondary schools.
7. Up to $10,000 can be used toward the repayment of student loans.
8. You can contribute up to $80,000 ($160,000 per married couple) in one year without incurring federal gift tax (as long as you don't make any other gifts to the recipient over the next five years), making it an effective estate and gifting tool.

Nonparental 529 Rule Changes More Favorable for FAFSA

Recent changes to the Free Application for Federal Student Aid, commonly known as FAFSA, which is used to determine student eligibility for financial aid, have made a nonparental 529 plan even more attractive for prospective college students. Nonparental 529s, often referred to as grandparent 529 plans, have always enjoyed the advantages listed above. Distributions from the plan, however, previously impacted student income and potentially a child's eligibility for financial aid. Under the new rules, this will no longer be the case.

	Nonparental 529 Plan Assets	Nonparental 529 Plan Distributions
Former FAFSA requirements	Assets not reported on FAFSA	Reported as untaxed student income and 50% of the distribution is considered available for college, potentially reducing eligibility for aid
New FAFSA requirements	Assets not reported on FAFSA	Distributions not reported on FAFSA

Under the new rules, distributions from a nonparental 529 plan do not need to be reported on the FAFSA. The new rules are applicable beginning with FAFSAs filed in October 2022. Therefore, students filling out the FAFSA form this October will not have to report distributions from any 529 plan (distributions from parent-owned 529 plans do not have to be reported) as untaxed student income in determining financial aid eligibility for the 2023-2024 school year.

A 529 plan is a valuable tool to help students fund their education. If you are thinking about helping your grandchildren or other loved ones achieve their educational dreams and are wondering if a 529 plan may be right for you, Palisade can help. We will work with you to determine the most appropriate strategy and develop a plan to help you meet your education funding objectives.

*NJBEST Plan, amounts may vary by state plan.

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