What You Need to Know About Your 529 College Savings Plan by James Garfinkel

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A 529 plan is a tax-advantaged college savings plan that enables parents, grandparents and other loved ones to save for college in a tax-advantaged manner. Money saved using a 529 plan can be used to pay for tuition, and certain other items, including specific room-and-board expenses, textbooks, school supplies, and other qualified higher-education expenses.

Most states offer a tax deduction, so not only does the savings and growth accumulate tax-free, but your contribution will also yield immediate tax benefits. For example, New York State taxpayers can deduct up to $5,000 (a married couple filing jointly can deduct up to $10,000) of 529 plan contributions from their state taxable income each year. A recent Wall Street Journal report showed that a couple filing a joint 2011 return with $100,000 in taxable income and contributions of $2,500 each to two childrenâ€™s in-state 529 plans would provide a tax savings of $343. It should be noted that plan contributions are not deductible for federal income tax purposes.

Not all 529 college savings plans are created equal. Before deciding which college savings plan is best for you and your family, you should consider the available investment options and relative costs or fees between the various state-sponsored plans. Some states restrict state tax deductions to plans sponsored by the taxpayerâ€™s state, while several other states allow residents to choose a 529 plan from any state and still receive a valuable deduction.

You are able to change the way your existing investments are allocated once per year or whenever you change the account beneficiary. The account owner can change the allocation of future contributions at any time.

One of the most frequent criticisms about 529 plans is what happens if the intended beneficiary does not go to college. Luckily, account owners have lots of options. You can leave funds in the 529 plan account in case the beneficiary decides to attend college in the future. You can create a new account for another family member and use the existing 529 assets to pay for that individual's college education. If you choose to close the account, accumulated earning will be subject to federal income tax and an additional penalty of 10%, as well as any applicable state and/or local income taxes.

Regardless of income level, a well-structured juvenile life insurance policy can be used to secure lifetime insurance coverage at the lowest cost of insurance and provide an accessible source of funds for college.

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