

## 529 Plans: What Are The Benefits? - Transcript

**Tom Mullooly:** In episode 59, we send everybody back to school.

Welcome to the Mullooly asset show. I'm your host, Tom Mullooly, and this is episode number 59.

Where do we get these great questions from? I know I ask that a lot, but we get them from you. We get them from our clients, we get them from our viewers, we get them from people who listen to our podcasts. If you've got a question, doesn't matter if it's market related, investment related, financial planning, anything. Get in touch with us. You may wind up seeing it on a future video.

So Tim, what are we going to be talking about today?

**Tim:** What are some of the benefits of having a 529 Plan?

**Tom Mullooly:** 529 Plans have been around now for about 20 years. The first time I heard of it was in 1998. They have grown more and more popular as the years have gone by. They started out as temporary tax benefits. They became permanent with the Tax Reform Act in 2006.

So what happens with a 529 Plan? You put money into a 529 for a student of yours - could be a child, could be a grandchild, nephew, niece - you could put money into a 529 account, and that money is going to grow without taxes until the money comes out for college, which is really fantastic. The idea of money compounding without taxes is a tremendous gift, and people should really look at whether it makes sense for them. It does in a lot of cases.

Let's talk about this. The money grows without any kind of taxes. You don't get a 1099 each year. The only time you're going to get a 1099 with a 529 account is when you take a distribution. Now, this is important to understand. If you set up a custodial account for a child, grandchild, you'll get a 1099 each year. There are certain limitations on what's taxable and tax exempt or not taxable in custodial accounts. The thing to understand with 529 plans is that you, the donor, the person who's putting the money in, you own that account, not the beneficiary. With a custodial account, when that child, or the minor, comes of age - in some states it's 18, in a lot of states it's 21 - with a custodial account, the minor's going to own that account on their 21st birthday or their 18th birthday. So if they want to go out and buy a Corvette, technically the money is theirs. I haven't seen a situation like that in 30 years, but you never know. With a 529, the donor owns the asset. So if you do need the money, you can take it out, but there's some tax ramifications with it. We want to keep these videos short, so we won't get into all the details with that.

The other thing to know is that, unlike a Roth IRA, there are no income limits. So if you're a high-income earner, you can still put money into a 529 Plan. There's no annual limit in terms of what you can put into it, but there are some lifetime caps depending on which state plan that you're contributing to.

I talk about these state plans. It's important to know that every state has their own plan, so if you live in New Jersey, there's a New Jersey plan. If you live in Rhode Island, there's a Rhode Island plan. It doesn't necessarily mean that you have to invest in that plan. There are some states that will give you a tax deduction if you buy into their state plan. There are other states that they don't really care what plan you go into. Then there's other states that say, "We don't care what plan you go into. You're not getting a tax deduction anyway." So you've got long-term compounding, but then you also get the potential for some tax deductions that come with it.

There are 6 states that offer a state income tax deduction, and it doesn't matter what plan you go into. So if you live in Arizona, Kansas, Minnesota, Missouri, Montana, and Pennsylvania, those 6 states say, "We don't care what plan you go into. If you contribute to a 529, we're going to give you a little break on your state income taxes."

There are 7 states that have a state income tax but you don't get any kind of deduction for making a contribution, so those 7 states, California, Delaware, Hawaii, Kentucky, Maine, New Jersey, and North Carolina, these states all have a state income tax. You don't get a tax break.

Now, you can get a tax break. You've got to check out your state plan and measure it against other state plans that are out there. All of these state plans have different vendors, so you're going to find, like in New Jersey, Franklin manages the plan whether you buy direct through the state with NJ Best or you go through an advisor like Mullooly Asset Management.

There are other states that use Fidelity, Vanguard, TD Ameritrade. Everybody's different, and they have their own set of investment choices and their own set of investment fees, so you've got to really do a little homework, as long as we're talking about school, when it comes to that.

But before we end the video, I just wanted to mention something else. If you are fortunate enough to be in a situation where you can really help a child or a grandchild by going to college, the question that always comes up is how much can we gift to our child or grandchild without running into any kind of gift tax problems? Here's a tip. If you're in a position where you can help out a student, if you write the check directly to their educational institution, right to their college, there's no gift tax threshold with that whatsoever. So if you have someone who's going to school, instead of making a gift, pay the money directly to the school, that's not a gift. So that's a really nice thing a lot of people kind of lose sight of or don't forget.

There's also something else that comes into estate planning or trying to move assets at the end of the game. What you can do is you can make up to, right now the dollar limit is \$14,000 on gifts per year. You are permitted with a 529 Plan to make up to five years of gifts at \$70,000 in one year. You can do it all at once. You don't need five years to do it. So you can have five years of \$14,000 gifts plopped one year right into a 529 account for a child or grandchild, niece, nephew. Makes a lot of sense. It's something that's worth considering.

Obviously we can't cover everything in this video, but there's a lot more to 529 accounts and 529 Plans that most people don't really understand. So get in touch with your investment advisor. If you don't have one, feel free to reach out to us.

Thanks for watching episode 59. We'll see you on the big 6-0.