

## How 529 Plans Help Families Save for College and How the American Recovery and Reinvestment Act of 2009 Expanded 529 Plan Features

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**What is a 529 plan?** They are investment vehicles designed to help families pay for future expenses associated with college or other qualified post-secondary training. Though contributions to a 529 plan are not deductible, these plans offer other tax advantages and are named after Section 529 of the Internal Revenue Code. All 50 states and the District of Columbia sponsor at least one type of 529 plan.

**What's new?** The [American Recovery and Reinvestment Act of 2009](#) (ARRA) added computer technology to the list of college expenses (tuition, books, etc.) that can be paid for by a 529 plan. For 2009 and 2010, the law expands the definition of qualified higher education expenses to include expenses for computer technology and equipment or Internet access and related services to be used by the designated beneficiary of the 529 plan while enrolled at an eligible educational institution. Software designed for sports, games or hobbies does not qualify, unless it is predominantly educational in nature.

**What "computer technology or equipment" refers to.** This means any computer and related peripheral equipment. Related peripheral equipment is defined as any auxiliary machine (whether on-line or off-line) which is designed to be placed under the control of the central processing unit of a computer, such as a printer. This does not include equipment of a kind used primarily for amusement or entertainment. "Computer technology" also includes computer software used for educational purposes.

**Origins.** Congress created them in 1996 and they are named after section 529 of the Internal Revenue code. The legal name for 529 plans is "qualified tuition programs" in the tax code.

**Why use a 529 plan?** There are advantages of 529 plans and one may be suitable for your family's needs. Earnings are not subject to federal tax when used for eligible college expenses. Earnings are often not subject to state tax. States may offer other incentives to in-state participants. There are no income restrictions on individual contributors. Contributions are only limited by the qualified education expenses of the beneficiary. You can change the beneficiary of a plan if the new beneficiary is in the same family. You can open a plan benefiting anyone: a relative, a friend or even yourself. The plan owner or custodian controls the funds until withdrawal, not the beneficiary.

**How 529 plans are structured.** There are two basic types of 529 plans — prepaid tuition plans and savings plans. A prepaid tuition plan enables a family to pay for future tuition now in current dollars and prices. A savings plan enables a family to accumulate funds in a tax-advantaged way for future tuition costs. A 529 plan can be established and maintained by a state, state agency, or an eligible educational institution. Each 529 plan is somewhat unique. Some state-sponsored plans offer incentives to in-state participants, such as state income-tax deductions or credits. Each 529 plan has one custodian and one beneficiary. A student or future student can be the beneficiary of more than one 529 plan.

**Contribution limitations.** Contributions can not exceed the amount necessary to provide for the qualified education expenses of the beneficiary. Contributors should be aware of potential gift tax issues if the amount contributed by any one contributor during a year to a given beneficiary, together with other gifts to that beneficiary, is greater than \$13,000. For a general discussion of gift tax rules, see IRS [Publication 950](#), Introduction to Estate and Gift Taxes. For information on a special rule that applies to contributions to 529 plans, see the instructions for [Form 709](#), United States Gift (and Generation-Skipping Transfer) Tax Return.

**Use with other aid.** A family using a 529 plan to pay for some of a child's college expenses may still be eligible to claim either the American opportunity credit or the lifetime learning credit. Check IRS [Publication 970](#), Tax Benefits for Education.