

# Guide to 529 College Savings Plans

**California Version**



*Prepared By*

**ATUL C. DUBAL, CFP®**

*CERTIFIED FINANCIAL PLANNER®*



5506 SUNOL BOULEVARD SUITE 205  
PLEASANTON, CA 94566

OFFICE: (925) 523-3459

MOBILE: (925) 202-1452

ATUL@PRUDENTPROSPERA.COM  
WWW.ATULCFP.COM

FOR EDUCATIONAL USE ONLY.

Not intended as specific individual advice.

The information contained herein is based upon publicly available information and is accurate to the best of our knowledge. It not intended to be fully comprehensive; some policy benefits, features, and restrictions may not be fully detailed. The information is subject to change without notice. The authors disclaim any responsibility for actions taken based solely upon the information contained herein.

Atul C. Dubal, CFP is an Investment Advisor Representative offering advisory services through Prudent Prospera Planning, Inc., a California Registered Investment Advisor

California Insurance License #OB42798

© Copyright 2023 Prudent Prospera Planning, LL. All Rights Reserved.



## Introduction

**This document provides a guide for anyone who wants to establish or contribute to a college savings plan.**

**Technically these accounts are called “Qualified Tuition Plans” under Section 529 of the Internal Revenue Code. All fifty states sponsor at least one type of “Education Savings Plan” and a handful of states and some private colleges offer a “Prepaid Tuition Plan.”**

**This document is focused upon Education Savings Plans, which will simply be referred to as a 529 Plan going forward.**

Simply put, a 529 Plan allows parents, grandparents, uncles, aunts, or anyone else to establish and contribute to a 529 Plan for a future or current student, known as the “beneficiary” of the Plan.

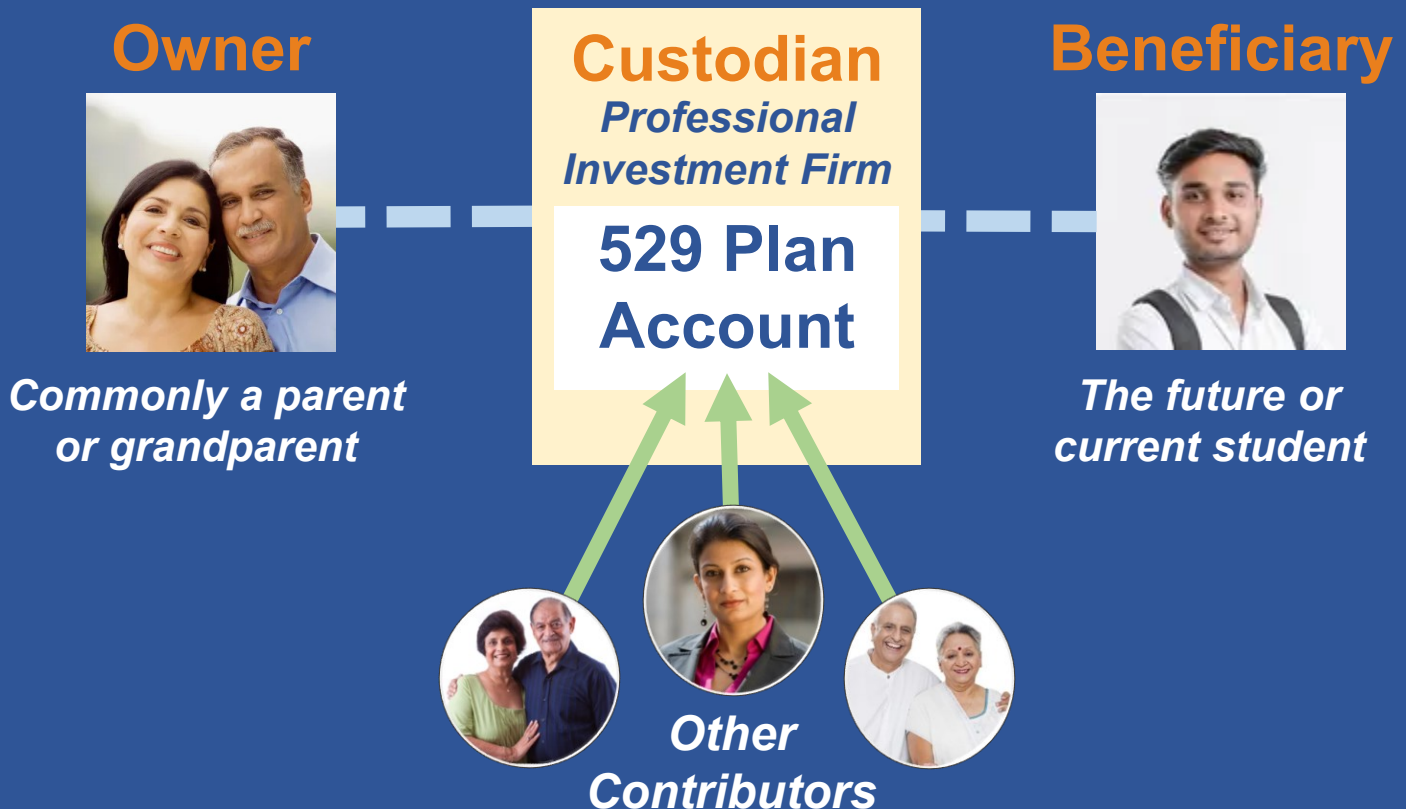
**A 529 Plan is an investment account that provides tax benefits when used to pay for qualified education expenses.**

**A 529 Plan is structured with an Owner, a Beneficiary, and a Custodian.**

**Owner:** The individual that establishes and controls the 529 Plan Investment Account. Most commonly a parent or grandparent, but it may also be the student themselves if they are of legal age. Commonly the Owner is the primary contributor of funds to the Plan, but others such a family can also contribute.

**Beneficiary:** The current or future student (only one per account). There is no minimum nor maximum age for the beneficiary.

**Custodian:** The professional investment firm where the account is held (such as Fidelity, Schwab, T. Rowe Price, etc.). The Custodian is a fiduciary record keeper.



# Tax Benefits of a 529 Plan

**Tax-Deferred Growth.** Contributions to the Plan are made with after-tax money. Growth of the contributions is tax-deferred; growth is not reported as capital gain or interest.

**Tax-Free Withdrawals.** Withdrawals of gains (and contributions) are tax-free when used to pay for “Qualified Education Expenses.”



There is no Federal tax deduction or credit for contributions to a 529 Plan but some states do.

**California does not provide a state tax deduction or credit for 529 Plan contributions.**

## Income Limits for Contributors

NONE! Anyone can contribute to a 529 Plan.

## Maximum Contributions

There is no IRS annual limit to contributions, but since contributions are considered gifts, any annual contribution over \$17,000 per person (2023) counts against the lifetime federal Gift Tax Exemption.

A contributor can make five years-worth of contributions in a single lump sum (\$85,000 in 2023) so long as that person makes no other contributions for the next five years.

**States impose limits to the total contributions**, reflecting the cost of attending college in each state. **In California**, the total that may be contributed to any single beneficiary is **\$529,000**.

# Qualified Education Expenses

Withdrawals from a 529 Plan are tax-free when used to pay for Qualified Education Expenses.

EXPENSE TYPE	IS IT A “QUALIFIED EDUCATION EXPENSE”?
<b>Tuition and Fees</b>	<b>Yes</b> up to the full amount of college or vocational school tuition and any required fees. May also be used for K-12 private school tuition up to \$10,000 per year.
<b>Books and Supplies</b>	<b>Yes</b> for college expenses only.
<b>Computers, software, and internet access</b>	<b>Yes</b> for college-related expenses only.
<b>Room and Board</b>	<b>Yes</b> for college-related expenses only as long as the student beneficiary is enrolled at least half-time. Room and Board (meals) is restricted to the cost calculated annually by the educational institution but includes the cost of off-campus living. This varies by college.
<b>Student Loan Payments</b>	<b>YES</b> , but with a lifetime limit of \$10,000.
<b>Transportation and Travel</b>	<b>NO</b> . Transportation to and from campus, airfare and gas are not qualified expenses.
<b>Health Insurance</b>	<b>NO</b> . This includes health insurance policies offered by the school to students.
<b>Application and Testing Fees</b>	<b>NO</b> .
<b>Extracurricular Activity Fees</b>	<b>NO</b> .

# 529 Plan Investment Choices

The investment choices vary by state and Custodial firm, but all Plans typically offer a wide range of investment options.

*Most Plans offer investments in the form of funds similar to mutual funds, ETF, or index funds, but not individual stocks or securities.*

*As example:*

## The California ScholarShare 529 Plan offers:

- **30 different “target date” portfolios** that are programmed to change the investment mix over time (change from higher risk to lower risk based upon when the student is expected to begin college).
- **8 different “static” portfolios** of varying risk profiles and investment types.
- **6 different “single-fund” portfolios** of varying risk profiles including an interest-bearing money market choice.

*For more information on the California ScholarShare 529 Plan go to:*

**<https://www.ScholarShare529.com>**

# Do I have to use my states 529 Plan?

**NO.** The only reason to use a Plan sponsored by your home state would be if the state offers a tax deduction for contributions. Since California does not do so, you may want to explore plans sponsored by other states.

Most state-sponsored Plans allow for non-residents to invest in them (but not all so do your research). A 529 Plan sponsored by another state may offer investment options that you prefer over the California plan or may have lower fees.

**Any 529 Plan can be used to pay for Qualified Education Expenses at any qualifying institution in any state.** Here is a great resource for research:

**<https://www.savingforcollege.com/enroll-in-a-529-plan>**



# What if the Plan is not used?

If money is left in the Plan after the Beneficiary graduates, stops attending school, or never attends, there are three options for the account Owner.

- ▶ **Designate a new Beneficiary.** This could be another qualifying family member.
- ▶ **Withdraw the remaining funds.** The Owner can withdraw the funds and use them for any other purpose. *This will incur a federal tax penalty of 10% and a California tax penalty of 2.5% applied to the earned portion of the funds, and the earnings will be considered taxable.*

## There are exceptions to the tax penalty:

- *The Beneficiary dies or becomes disabled. If disability occurs you can rollover the funds to an ABLER account.*
- *The Beneficiary receives a tax-free scholarship.*
- *The Beneficiary receives educational assistance through a qualifying employer program.*
- *The Beneficiary attends a US Military Academy.*

- ▶ **Rollover remainder to a Roth IRA.** Starting in 2024, up to \$35,000 can be rolled-over to a Roth IRA as long as the Plan is at least 15 years old.

# How do I open a Plan?

**We suggest a “direct-sold” 529 Plan.”** There are Plans sold by professional advisors (“Advisor-Sold”) but we at Prudent Prospera Planning believe that a Direct-Sold Plan is best for the majority of people because the fees will be lower, and the investment options within the Plans are not complex.

**If you have questions about the suitability of an investment option within a Direct-Sold Plan, we will be happy to provide you with our assistance.**

**You can both research Plans and enroll in a Plan at:**

**<https://www.savingforcollege.com/enroll-in-a-529-plan>**



**Atul C. Dubal, CFP®**

## ***Final Thoughts***

***Friends, I hope you found this overview of 529 Plans to be a value. We at Prudent Prospera Planning stand ready to assist you with your financial planning needs, including:***

- 👉 Comprehensive Financial Planning
- 👉 Investment Portfolio Management
- 👉 Tax Planning & Management
- 👉 Retirement Income Planning
- 👉 Life Insurance & Annuity Solutions
- 👉 Life Insurance Premium Financing
- 👉 Charitable Giving
- 👉 1031 / 1035 Exchanges

**Office: (925) 523-3459   Cell: (925) 202-1452**  
**Email: [Atul@PrudentProspera.com](mailto:Atul@PrudentProspera.com)**