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## *Does pizza count as a higher education expense?*



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Daydreaming about a loved one's bright future is an exciting prospect. Helping him or her get there is even more endearing.

With this in mind, saving for college is becoming more popular than ever. What's more, a 529 Plan, named after its section in the IRS code, can help you get there.

In general, a 529 Plan is a college savings plan allowing account owners and beneficiaries to save for future college education expenses. Participants benefit from federal tax treatment and, in some cases, state tax and non-tax benefits.

Some common post-529 Plan questions include:

1. What if you, and/or your, beneficiary move out of state and are no longer a resident?

Since all 529 Plans are open to residents and non residents if you, or your beneficiary, move out of state you will still be able to participate in your plan and benefit from federal tax treatment.

The question would be how your state tax benefits are affected in your new state of residence.

Since California does not allow a tax deduction for contributions, many Californians use other state plans anyway.

2. What happens to the money in the plan if the beneficiary gets a qualified scholarship or decides not to attend college after all?

Your beneficiary may benefit from a small, qualified scholarship and only need part of the money from the 529 Plan. In this case, the qualified scholarship money would be applied to college expenses first. Then, the 529 Plan funds would be applied to the remaining balance.

As long as the full 529 Plan distribution is used for qualified higher education expenses, the earnings will not be federally taxed. State taxes may still apply, but in California, as long as a distribution is for qualified education expenses, the earnings portion is not taxed. Otherwise, the earnings portion of a distribution not applied to qualified higher education expenses is federally and state taxed and in some cases may incur a 10 percent penalty.

If the beneficiary no longer needs the money from the plan, either because of a full qualified scholarship or forfeiting the idea of going to college altogether, a couple of things one may do is change the beneficiary or take out a full distribution.

Certain qualifications must be met to change the beneficiary.

Also, in general, any time funds are transferred to another individual, caution must be used to ensure that the maximum contribution limit is not exceeded.

Another option is to close the account and request a full distribution.

If a distribution is requested for the beneficiary in an amount equivalent to the qualified scholarship, the earnings portion of the distribution is subject to federal and state taxes, but not a 10 percent penalty.

If the beneficiary decides not to attend college, then a non-qualified distribution may be taken.

3. What are some examples of qualified distributions?

Typically, a qualified distribution is a distribution used to pay qualified higher education expenses at an eligible educational institution for your beneficiary.

Generally, a qualified distribution would include costs for tuition, fees, books, supplies, and equipment required to enroll, or attend, an eligible educational institution.

Also, if the beneficiary attends school at least part-time, certain room and board costs may also be considered qualified. Special needs services may also be included as qualified expenses of a special needs beneficiary, and necessary for that person's enrollment, or attendance, at a qualified institution.

Sorry, pizza is not included.

John Schooler is a local author on financial issues and topics.