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## WHAT YOU NEED TO KNOW ABOUT 529 QUALIFIED EXPENSES

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When it comes to saving for college, it's never too early to start, and 529 plans are a great option for parents. **Eleven percent of parents** save for college with a 529 account, but financial advisors say the accounts could be a smart move for many more.



These plans get their name from a section of the Internal Revenue Code that allows parents to set aside money that grows tax-free over time; then, the beneficiary can make withdrawals tax-free as long as the money is used for **qualified higher education expenses**. Most states offer at least one **529 plan option**. While there is no requirement that you invest in your home state's 529 plan, there may be additional incentives for residents.

Starting an account can seem daunting. Work with a financial advisor to create a savings plan that works with your overall financial picture. If possible, you should be aiming to save 10 percent of your paycheck per child and increase that amount by 2 percent per year once it's set up.

Here's what you need to know about spending those funds.

## Basic expenses are covered

You can make qualified withdrawals to pay for basic college expenses such as tuition and room and board. Those expenses alone will likely eat up the bulk of your 529 money; the average cost of tuition and fees at public schools is currently \$9,410 for in-state residents and \$32,405 at private four-year schools **according to the College Board**. You can also use it to cover required supplies and textbooks listed on your class syllabus. A **new change** made in December 2015 now allows students to use 529 money to purchase new computers.

## You'll need to keep receipts for your taxes

You'll need to be able to prove that your costs are qualified education expenses when you file your taxes. Withdrawals made for unqualified expenses are subject to income tax as well as a 10 percent tax penalty. Withdrawals must be made in the same calendar year that the expense is incurred to avoid

triggering tax penalties.

## You can change the beneficiary

If you save more money in a 529 plan than what is needed to cover your child's qualified education expenses, there are options for using that money without incurring tax penalties. If you have another family member who is attending college and could use the funds (or if you would like to take higher education classes yourself), you can change the beneficiary designation on the account and use the money to cover that person's qualified expenses.

## Additional funds can give you flexibility

Since your child will also incur costs that fall outside of the qualified education expenses category, you may want to have another source of money to help cover them. **Some options** include savings or money market accounts, student or parent loans, a HELOC (home equity line of credit), or a Roth IRA. Your child should also search for and apply for **scholarships**, which can help reduce the overall cost of their education.

When it comes to paying for college, **this rule of thumb** is recommended: aim to save one-third of costs, pay one-third from your income during the college years, and borrow one-third using student loans or other means.

Saving for college can feel overwhelming, but crafting a plan early and adjusting it as needed can make the process less stressful.

Author: Beth Braverman

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