

## **529 PRESENTATION**

### **What are the income tax benefits of investing in a PA 529 account?**

**Earnings grow federal income tax-free** – Earnings grow tax-deferred and are free from federal income tax when used for qualified education expenses.

**Earnings grow state income tax-free** – For Pennsylvania taxpayers, earnings grow tax-deferred and are free from Pennsylvania state income tax when used for qualified education expenses.

**Pennsylvania state income tax deduction** – Pennsylvania taxpayers can deduct up to \$15,000 in contributions per beneficiary per year (\$30,000 if married filing jointly, assuming each spouse had income of at least \$15,000) from their Pennsylvania taxable income for the purposes of determining their state income taxes.

*\* The availability of tax or other benefits may be contingent on meeting other requirements. The earnings portion of a withdrawal not used to pay for qualified expenses may be subject to federal income tax and a 10% federal penalty tax; the entire withdrawal may be subject to state and local income taxes.*

### **What are the gift, estate and inheritance tax benefits of investing in a PA 529 account?**

**Federal gift tax** – You can contribute up to \$75,000 in a single year (\$150,000 for a married couple filing jointly) for each beneficiary without incurring federal gift tax. The amount contributed is prorated over 5 years so, for example, a \$30,000 contribution would use \$6,000 of the current \$15,000 annual gift tax exclusion each year for 5 years.

**Federal estate tax** – If you die with money remaining in your account, it will not be included in your estate for federal estate tax purposes. However, if you choose to take advantage of the federal gift tax averaging option mentioned above and you die within five years of contributing, a prorated portion of the contribution will be subject to estate tax.\*\*

**Pennsylvania inheritance tax** – Funds in the account are exempt from Pennsylvania inheritance tax. Depending on the relationship between the deceased account owner and the heirs, this can be a savings of up to 15% of the entire value of the account.

**Completed gift** – One of the unique features of 529 accounts is that a contribution is considered by federal law to be a completed gift from the contributor to the beneficiary. However, the account owner, not the beneficiary, controls the account. So if you are both the contributor and account owner, the amount you contribute is removed from your estate but nevertheless you retain complete control over the assets – including the right to change the beneficiary or to withdraw the assets and use them for any purpose (subject to taxes and penalties).

### **Will owning a PA 529 account affect the beneficiary's eligibility for post-secondary education financial aid?**

**State financial aid** – PA 529 accounts are not included in determining eligibility for Pennsylvania state financial aid programs. Other 529 plans are. If you or the beneficiary is not a Pennsylvania resident, check with your state to determine its requirements.

## 529 PRESENTATION

**Federal financial aid** – If the account owner is a custodial parent, up to 6 percent of the money in a 529 account may be considered available for college expenses.

Be sure to check with the schools you are considering regarding their criteria for financial aid.

### What benefits can I get by saving in the PA 529 Program that I can't get from any other 529 program?

As a Pennsylvania resident, you get special treatment. Not only are your contributions deductible from your Pennsylvania state income tax, the entire value of your account is exempt from Pennsylvania inheritance tax. Assets held in a PA 529 plan are not counted when determining state financial aid for college. Assets in any other state 529 plan are counted. PA 529 assets are also protected from creditors in Pennsylvania. Assets in out-of-state plans are not protected.

Another unique benefit to PA 529 plans is the SAGE Scholars Tuition Rewards program, which offers tuition discounts to 300+ private colleges nationwide, including over 50 in Pennsylvania. One more great way to stretch your savings with a Pennsylvania 529 College and Career Savings Plan.

#### SAGE Scholars Tuition Rewards Program

Each Tuition Reward point is equal to a \$1.00 guaranteed minimum discount off of tuition at any of our member colleges. The maximum scholarship varies by college, but currently is over \$50,000! The maximum discount from Tuition Rewards that a student can receive is 25% of the cost of tuition at a SAGE member college or university.