**Re: Planning 2017: Educational Savings Plans**

Dear Client:

As a parent with young children, you are faced with many rewards and challenges. One of which may be saving for the high cost of a college education. However, there are two tax-favored options that might be beneficial: a qualified tuition program and a Coverdell education savings account. In addition, you might also want to invest in U.S. savings bonds that allow you to exclude the interest income in the year you pay the higher education expenses. Each of these options has their benefits and limitations, but the sooner you choose to make the investment in your child’s future, the greater the tax savings.

**Qualified Tuition Program (QTP).** A qualified tuition program (also known as a 529 plan for the section of the Tax Code that governs them) may be a state plan or a private plan. A state plan is a program established and maintained by a state that allows taxpayers to either prepay or contribute to an account for paying a student's qualified higher education expenses. Similarly, private plans, provided by colleges and groups of colleges allow taxpayers to prepay a student's qualified education expenses. These 529 plans have, in recent years, become a popular way for parents and other family members to save for a child’s college education. Though contributions to 529 plans are not deductible, there is also no income limit for contributors.

529 plan distributions are tax-free as long as they are used to pay qualified higher education expenses for a designated beneficiary. Qualified expenses include tuition, required fees, books and supplies. For someone who is at least a half-time student, room and board also qualifies as higher education expense.

**Coverdell education savings accounts.** Coverdell education savings are custodial accounts similar to IRAs. Funds in a Coverdell ESA can be used for K-12 and related expenses, as well as higher education expense. The maximum annual Coverdell ESA contribution is limited to $2,000 per beneficiary, regardless of the number of contributors. Excess contributions are subject to an excise tax.

Entities such as corporations, partnerships, and trusts, as well as individuals can contribute to one or several ESAs. However, contributions by individual taxpayers are subject to phase-out depending on their adjusted gross income. The annual contribution starts to phase out for married couples filing jointly with modified AGI at or above $190,000 and less than $220,000 and at or above $95,000 and less than $110,000 for single individuals.

Contributions are not deductible by the donor and distributions are not included in the beneficiary's income as long as they are used to pay for qualified education expenses. Earnings accumulate tax-free. Contributions generally must stop when the beneficiary turns age 18, except for individuals with special needs. Parents can maximize benefits, however, by transferring the older siblings' account balance to a younger brother, sister or first cousin, thereby extending the tax-free growth period.

**U.S. Savings Bonds.**If you redeem qualified U.S. savings bonds and pay higher education expenses during the same tax year, you may be able to exclude some of the interest from income. Qualified bonds are EE savings bonds issued after 1989, and Series I bonds (first available in 1998). The tax advantages are minimized unless the redemption of the bonds is delayed a number of years, therefore some planning is required.

The exclusion is available only for an individual who is at least 24 years of age before the issue date of the bond, and is the sole owner, or joint owner with a spouse. Therefore, bonds purchased by children or bonds purchased by parents and later transferred to their children, are not eligible for the exclusion. However, bonds purchased by a parent and later used by the parent to pay a dependent child’s expenses are eligible. The exclusion is, however, phased out and eventually eliminated for high-income taxpayers.

Of course, in planning for higher-education costs, parents may also choose to use funds from an individual retirement account or a traditional form of savings. In addition, higher education costs may be supplemented with scholarships, loans and grants. However, having a viable plan as early as possible in a child's life will make maximum use of a family's financial resources and may provide some tax benefit. If you would like to explore how these opportunities can work for you and have us fully evaluate your situation, please do not hesitate to call.

Sincerely,