

# Saving for College with Help from Uncle Sam

BY JOHN B. PEACE

**N**o one has to tell you that attending college is an expensive undertaking; it seems tuition increases are announced almost every year.

The College Board® reports the estimated cost of tuition and fees to attend a private four-year college will be \$187,380 in 2017; tuition and fees for an in-state four-year college will be \$47,885. This cost does not even include other expenses such as room and board, books, transportation and an occasional latte. But if you start early, there are two tools available to Arkansans that can greatly reduce the after-tax cost of saving for college.

The first involves investing in the Arkansas GIFT Plan, a Section 529 plan (named after the Internal Revenue Code section that allows states to adopt such plans). Under a Section 529 plan, a person can contribute up to \$11,000 per year to an account that is generally invested in mutual funds. The account owner names a beneficiary of the account, who will eventually receive distributions from the account to pay for higher education expenses, including tuition, books, room and board and similar expenses. To qualify for reimbursement, the beneficiary can attend almost any accredited public or private two- or four-year college in the United States.

The Arkansas GIFT Plan offers a variety of Vanguard funds in which to invest. The account owner can decide whether the account is invested in safe investments, such as treasury bonds, or those that carry a higher risk, such as stocks. Alternatively, the account can be invested in an age-based portfolio. In an age-based portfolio, the investments are mostly in equities, and are converted to income-producing investments, as the child gets older and closer to college age.

Here comes the good part ... as long as the funds are used for qualified college expenses, all the earnings on the account are tax-exempt, federally and in Arkansas. Can you imagine the tax savings over the life of

an account if it is established when the child is an infant? Eighteen years of tax-exempt earnings can really add up.

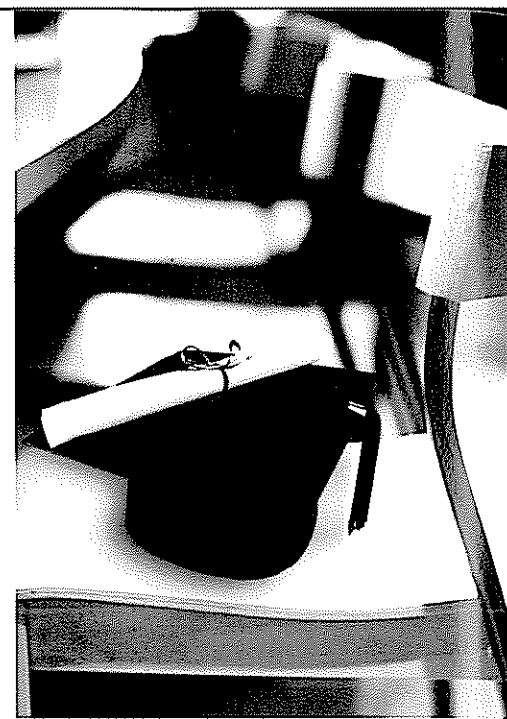
And it gets even better for Arkansas residents. At the 2005 session, the Arkansas Legislature passed a law granting an income tax deduction of up to \$5,000 (\$10,000 for married couples) for contributions to the Arkansas GIFT Plan. Even though an Arkansas resident can invest in any state's Section 529 plan, the Arkansas income tax deduction is only available for contributions to the GIFT Plan.

I can guess what you're thinking now if you're a young parent: how can I afford to set up an account for college expenses when the cost of diapers is killing me? Enter the grandparents. Section 529 plans are a perfect vehicle for grandparents to use to help set aside funds on a tax-favored basis for future college expenses of their grandchildren.

I can also predict another logical question you must be asking yourself: what happens if I contribute to a Section 529 account for 18 years and then the child skips college? Thankfully, when Congress passed Section 529, they added a provision that allows an account owner to change the beneficiary of the account as long as the new beneficiary is related to the old beneficiary, such as a sibling or first cousin. It is even possible for the account owner to withdraw the funds rather than using them for college expenses, but the withdrawal will result in a penalty in addition to the account owner having to pay tax on the earnings.

A Section 529 account is generally much better than an educational trust, which used to be a favorite of grandparents to set aside funds for college. Under a Section 529 account, the account owner retains control of the account and decides if and when funds are paid out for college expenses. Such flexibility is generally not available in a trust arrangement.

The second tool available to assist Arkansans in saving for college involves setting



up an account with Upromise. Upromise Investments, Inc is the company that administers the GIFT Plan for Arkansas, and a related company offers a reward program for everyday purchases. If a person has a Upromise account, the purchase of certain consumer products from companies such as Coca Cola, McDonald's, ExxonMobil, Bed Bath and Beyond, and yes, even Huggies, results in a rebate to the account owner of a percentage of the purchase price of the product. In other words, "free money." Periodically, funds in the Upromise account can be swept into the account owner's Section 529 account. Setting up a Upromise account is free, so it is something you should really consider — there are already 33,000 Arkansans enrolled in the Upromise program.

Obtaining a degree is, in many cases, key for most high school graduates, and with tuition and college expenses rising, we can all use a little help saving for college. The tax benefits associated with the GIFT Plan and Upromise rebates can provide that help.

To open a Upromise account online, go to [www.upromise.com](http://www.upromise.com). To enroll in the Arkansas Section 529 Plan, visit [www.thegiftplan.com](http://www.thegiftplan.com), or call (800) 587-7301; for information about Section 529 plans in general, go to [www.savingforcollege.com](http://www.savingforcollege.com)

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