

# EDUCATION PLANNING

## TAX-SAVVY WAYS TO HANDLE YOUR CHILDREN'S EDUCATION COSTS



# INTRODUCTION

All parents, as we watch our children grow and learn, want to set them up for the best lives possible—and we all know that includes the best education we can give them.

That does not mean we need to necessarily send our kids to Ivy League universities. Some smaller (and less expensive!) colleges offer excellent programs, and so do many state colleges.

But no matter what we and our children are aiming for in the way of post-secondary education, it pays to plan ahead for the costs of a college degree.

Currently, the average cost of a year's worth of college (including tuition, fees, books, supplies and expenses) is ~\$38,270. But those costs vary greatly depending on the college.

Public colleges average an annual cost of around \$27,000 (with less than \$10,000 representing tuition) for in-state students and roughly \$46,000 for out-of-state students (tuition ~\$28,000).

Private non-profit 4-year colleges' annual cost averages close to \$57,000 (tuition ~\$38,000).

Elite universities' costs can run even higher.

That is a lot of money, however you slice and dice it.

Fortunately, there are a variety of ways to start saving for our kids' education early. And some of them come with noteworthy tax benefits.

In this whitepaper, we will discuss some of our options. And saving for our children's future college expenses isn't limited to our parents – grandparents can contribute.



# 529 PLANS

The best known and most popular college savings vehicles are 529 Plans – made even more attractive by the changes to the rules governing them enacted as part of the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 and SECURE 2.0, enacted in 2022.

As of June 30, 2024, 529 Plans accounts held an aggregate of ~\$508.3 billion, which represents 16.8 million such accounts, holding an average balance of ~\$30,295.

There are two distinct types of 529 Plan accounts available—

- **Education Savings Accounts (ESAs)**—These are the most popular type of 529 Plan accounts, and the simplest. You (and/or your parents, your spouse's parents, and anyone who chooses) contribute money, the money grows (if you've made wise investments—check with your fractional CFO or other trusted financial advisor before directing the investment of contributions), and you withdraw it for the beneficiary's eligible education expenses. But there are also:
- **Prepaid Tuition Accounts**—These are less popular, and for a reason. Prepaid tuition plans effectively lock in your child's tuition at a given college, and the account guarantees to cover eligible higher education expenses—at that college. But if your child decides s/he absolutely does not want to attend the college you chose, there are no guarantees the expenses at another institution will be fully covered.

A circular graphic with a white background. It features a pink paper clip at the top, a yellow notepad with blue lines, and a blue pen. The text '529 College Savings Plans' is written in a large, bold, black serif font. A pink and yellow pencil is visible at the bottom right.

**529 College  
Savings Plans**

## 529 PLANS

Most of the federal rules governing 529 Plans apply to both types of accounts. There are no limitations on who can contribute to, or even open, a 529 Plan account on behalf of your child's future.

There is, however, a limitation on contributions—these cannot, in aggregate, exceed the estimated eligible college expenses of the account beneficiary, and only one beneficiary per 529 Plan account is permissible. That said, you can project estimated expenses, considering likely increases to the costs of tuition, housing, books, computer equipment, food, etc. This is not an exhaustive list of eligible expenses but represents the higher-ticket cost items most commonly associated with higher education.

Funds in a 529 Plan account can also be used to pay up to \$10,000 in student loan interest.

Gift tax consequences can be triggered if a contributor puts more into the account than the annual gift exclusion for that year. There is one work-around for that limitation, though—a contributor may make a contribution of five times the gift tax exclusion amount (for the year of contribution) at one time, thereby allowing the account to start growing based on a larger asset balance. For 2025, the annual gift exclusion amount is \$19,000 per individual donor to an individual recipient. A married couple, therefore, could make a joint contribution of \$190,000 (\$95,000 each) to a child's 529 Plan account in a single year, representing a 5-year total contribution in that amount. Of course, they will need to wait 5 years before making any additional contributions.

Since 529 Plan accounts are owned by the parent, grandparent, or other donor, rather than the beneficiary, there is minimal impact on your child's eligibility for other financial aid—such as scholarships, grants, and other programs. Account contributions can be withdrawn free of tax consequences, as contributors pay into the account in after-tax dollars.



## 529 PLANS

Account earnings, too, can be withdrawn tax free, when spent on eligible educational expenses. These may include primary and secondary tuition costs up to \$10,000 per year as well, depending on your 529 Plan's rules and state law—federal law permits 529 Plans to fund these costs, but does not require states or individual 529 Plans to follow suit. Check the fine print on your existing 529 Plan, or any you plan to open—know the rules on what educational expenses the account will and will not cover.

However, withdrawals not used for eligible educational expenses can result not only in a tax liability on any growth withdrawn, but a 10% penalty as well. So, be very careful about what withdrawals are used to pay for and be aware of any potential tax and/or for aware of any potential tax and/or penalty consequences.

You are permitted to change plans within the 529 options available to you (check these carefully!), and to change the investment direction of existing accounts and previous contributions (to a limit of twice per year per account). Investment directions for future contributions can be made at any time, and the number of times you can do this is not limited.



## 529 PLANS

Although, as mentioned above, a 529 Plan account should not amount to more than the estimated eligible college expenses of the beneficiary, people do sometimes find excess funds left in the account once the beneficiary has completed college.

One of the beauties of a 529 Plan account is that you have various options for using a leftover account balance:

- If you have another child approaching college, you can roll the excess funds into that child's 529 Plan account. The funds can then be used for any of that child's eligible education expenses, including, if your plan allows it, elementary, middle, and/or high school tuition. Only one rollover from a given account is permitted in a 12-month period.
- If your child, once their undergraduate degree is earned, wants to pursue postgraduate education, those expenses, too, are eligible for tax-free coverage from the existing account
- If you choose, you can use the leftover balance to fund a Roth IRA to set up your college graduate for retirement savings. There is a \$35,000 limit on the total amount which can be transferred to a Roth IRA from a 529 Plan account, and the transfers in a given year cannot amount to more than the child has earned over that year. The 529 Plan account must have been opened 15 years or more before any such transfers are made
- You can also change the beneficiary on the existing account, provided the new beneficiary is an eligible family member (the list is an expansive one). This is not an option we often recommend, but in some cases, it may be the right choice.



# 529 PLANS

The “Big Beautiful Bill,” signed into law on July 4, 2025, has further loosened 529 Plan eligible education expense restrictions. The legislation contains the following changes and new provisions concerning 529 Plans:

## **7 Additional Qualified Educational Expenses:**

For home-schooling and other K-12 expenditures, the new rules would cover:

- Curriculum materials

- Online education materials

- Fees related to national standardized testing

- Instructional materials, including books

- For college courses taken while a student is still in high school, any dual-enrollment fees

- Supplemental instruction and tutoring, so long as these are conducted outside the student’s home

- Students with disabilities are offered specialized strategy options

In addition, the new bill would give 529 Plan eligibility to the following education expenses:

- On-the-job training

- Preparatory courses for professional licensing, if industry-recognized

- Continuing professional education to maintain such a license

- Educational programs for veterans listed in the U.S. Department of Veteran Web Enabled Approval Management System (WEAMS) database.

Already an excellent option, 529 Plans have become even more attractive and inclusive.



## 529 PLANS

Rigby Financial Group has assisted our clients in opening and managing 529 Plan accounts for their children and grandchildren for many years—if you have one, or want to open one for your child or grandchild, please consult with us to ensure your hard-earned money makes the most of itself for your child's future.



# COVERDELL EDUCATION SAVINGS ACCOUNTS

A Coverdell Education Savings Account (ESA) functions much as a 529 Plan account, but Coverdell ESAs have more limitations set out in the rules governing them.

- Like a 529 Plan account, Coverdell ESAs are funded with after tax dollars but grow tax free with respect to the earnings.
- Only \$2,000 per child can be contributed each year (as with a 529 Plan account, you can open a separate account for each of your children or grandchildren).
- Your income must be under \$110,000 to contribute to a Coverdell ESA as a single parent. The limitation rises to \$220,000 for married couples who file joint returns. But contribution limits shrink starting at incomes of \$95,000 and \$190,000, respectively.

You are allowed (if you qualify—given the limitation on income to contribute to a Coverdell ESA, this may be difficult for some parents to afford) to contribute to both a 529 Plan account and a Coverdell ESA for each of your children or grandchildren.



# SCHOLARSHIPS

Many colleges and universities offer scholarships. These are often merit-based, but not always. Some are specifically for women, some for students of a particular ethnicity, and others for groups such as the families of members of the military.

There are also scholarships awarded by private foundations – this is a very long list, thankfully. Your employer may offer scholarships for employees' children. Even some local churches and businesses may offer assistance. Private foundations also award scholarships.

But scholarships may be tied to a particular field of study, such as science, technology, engineering and mathematics (STEM) fields, overseas research, etc., so be sure to target your research on your child's area(s) of interest.

At present, scholarships are not considered taxable income to either you or your child, so you can both breathe easy as s/he studies and you don't pay the costs or the taxes!

Fellowships, too, may be available, though these are mostly offered for post-graduate studies. They are also not considered as taxable income to you or your child.



# EDUCATIONAL TAX CREDITS

The Federal government offers several tax-friendly credits for educational purposes:

- The \$2,000 Lifetime Learning Credit for qualified tuition and related expenses for college and postgraduate students. This credit is available annually, with no limit on the number of years it can be claimed for eligible students enrolled in an eligible educational institution.
- The American Opportunity Tax Credit (AOTC), a partially refundable \$2,500 tax credit to help with tuition and other expenses such as certain required fees and course materials (but not including room and board). This credit is only available during the first four years of a student's post-secondary education.
- The individual income tax return item credit of up to \$2,500 for student loan interest.

When the government offers you both money and a tax break, our recommendation is: "take them!"

The One Big Beautiful Bill Act, as passed by the House, would create a new savings vehicle—Money Accounts for Growth and Advancement (MAGA accounts). A parent or guardian of a child up to age 8 could create one of these accounts, and would be able to contribute up to \$5,000 per year.

Investment earnings would be taxed as long-term capital gains, if used for higher education expenses, starting a small business, or toward the purchase of a first home.

For any child born between January 1, 2025, and January 1, 2028, whose parent or guardian opens a MAGA account for them, the federal government would contribute \$1,000.

Unused funds could be withdrawn, once the child has reached the age of 30, for any purpose, but funds withdrawn before the child reaches 18 (at which point up to 50% of the account balance would be available and eligible for the long-term gains rate on earnings) would be taxable as ordinary income.



## OTHER OPTIONS

There are other options for paying your child's education costs, but they are not nearly as tax-smart, and Rigby Financial Group suggests you avoid especially the first:

### Retirement Account Funds

Some parents withdraw retirement savings to help pay their children's college costs.

While early withdrawals from traditional retirement accounts count as taxable income, using the money for educational expenses will not trigger the usual 10% penalty.

But you get no actual tax savings—only a penalty waiver and a reduction to your retirement assets.

Don't do this unless there's no alternative!

Your child's education is vital, but so is your own retirement security.



## OTHER OPTIONS

If there is no other way to assist your child in getting a degree, you can also use:

### **Investment Account Earnings**

If you have substantial investments, there is a small tax break of a sort to be realized from selling some of them in order to pay for college costs.

It's true that these withdrawals will increase your taxable income.

But by selling only those assets which you've held for a year or more, you can ensure that the portion of the liquidation representing capital gains realized will be taxable at 15% to 20%, rather than ordinary income rates.



## FINAL THOUGHTS

To sum up, there are a number of options available to help pay for your children's college educations.

Some are more tax-savvy than others, as we've seen.

But we strongly urge you to consult with your fractional CFO or other trusted financial advisor—and make sure they are well-versed in the tax benefits and potential consequences of the various methods of funding education costs.



# DON'T DO IT ALONE!

When it comes to planning your children's future, but one of the biggest assets you can leverage is a Virtual CFO or trusted business advisor.

Your virtual CFO or trusted business advisor is the best place to start! Don't leave your hard earned assets at risk if the unexpected should occur - call Rigby Financial Group and start planning for your children's education today!

