

DECEMBER 2019 NEWSLETTER

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529 PLANS AND FINANCIAL AID

FIRM ANNOUNCEMENTS

A. AWARDS:

1. Pozzuolo Rodden, P.C. is pleased to announce that Joseph R. Pozzuolo has been named a 2019 Philadelphia Life Magazine and Suburban Life Magazine , Top Attorney for Business Law/Commercial Litigation and Estate Planning and Estate Administration.
2. Pozzuolo Rodden is pleased to announced that the Family Law Department of the Law Firm under the leadership of Judith Rodden, Esquire has been selected for Membership as one of the Family Law “10 Best Law Firm” for Pennsylvania by the American Institute of Family Law Attorneys.

B. PAST SEMINARS:

1. Joseph R. Pozzuolo, Esquire presented the following continuing legal and accounting education (CLE/CPE) webinar seminar for Clear Law Institute:
 - A) The Fundamentals of Estate Administration for The Suburban General Practitioner, A Step By Step Procedure With Ethics: Wednesday, December 4, 2019 at 1pm.
 - B) Fundamental Estate Planning Techniques and Accessories For The 21st Century- An Overview For The Suburban General Practitioner And CPA Including Ethics: Wednesday,

November 20, 2019 at 1pm; and,

C) Jeffrey S. Pozzuolo, Esquire presented a CLE/CPE webinar seminar for Clear Law Institute titled “Estate Planning for the Millennial Couple” on October 10, 2019.

Please contact Christine Wainwright at: Chrissy@Pozzuolo.com for details if you would like the online details to attend any of these CLE/CPE seminars.

C. BLOGS:

1. The following are a few of the business, tax, employment, estate planning and business litigation blogs posted on our main website www.pozzuolo.com during the past month:

- a. What Is Involved In Asset Protection;
- b. You’re The Executor Of An Estate? Here Are 7 Tips For Getting Through It; and,
- c. Probate.

Please visit our website www.pozzuolo.com for more information on these and other relevant business, tax, estate, business litigation and employment topics.

2. The following are a few of the family law blogs posted on our family law website www.pozzuolofamilylaw.com during the past month:

- a. Wife’s Survivor Benefit Should Have Been Included In The Equitable Distribution Of Marital Assets;
- b. Child Support- Paternity By Estoppel; and,
- c. Child Custody Relocation Rules And Requirements.

Please visit our website www.pozzuolofamilylaw.com for more information on these and other relevant family law topics.

529 PLANS AND FINANCIAL AID

What are Section 529 Plans?

Section 529 plans are named after Section 529 of the Internal Revenue Code (IRC), which was created in 1996 to authorize tax-free status for qualified tuition programs. A 529 plan is a tax-advantaged savings plan designed to encourage saving for future education costs. These qualified tuition plans are sponsored by states, state agencies or educational institutions. Each state has its own set of rules regarding 529 plans and it depends on which state the plan is opened to fully understand the rules for your plan.

Education savings plans allow a person to open a tax free investment account to save for the beneficiary’s future qualified higher education expenses such as tuition, mandatory fees, room and board, books, computers, printers, internet services and equipment needed to

complete coursework. Due to the Tax and Jobs Act of 2017, these savings plans can also be used to pay up to \$10,000 per year per beneficiary for tuition at any public, private or religious elementary or secondary school from kindergarten through 12th grade.

Effects of investing in a 529 plan

State and Federal Income Tax

Many states offer tax benefits for contributions to a 529 plan including deducting contributions from state income tax or matching grants. One of the benefits of 529 plans is the tax-free earnings that grow over a period of time. Withdrawals from 529 accounts for qualified higher education expenses are not subject to federal income tax and in many cases state income taxes. However, withdrawals not used for qualified higher education expenses will be subject to state and federal income taxes and an additional 10% federal tax penalty.

Financial Aid Eligibility

When applying to college all schools that offer federal need-based financial aid require students to complete the Free Application for Federal Student Aid (FAFSA). Schools then use the information provided on the FAFSA to calculate a student's Expected Family Contribution (EFC). The EFC is then used to determine how much aid and what type of aid the student is eligible for.

The effect of a 529 plan on a student's EFC depends on who owns the 529 plan. The value of a 529 plan owned by a dependent student or one of his/her parents is considered a parental asset on the FAFSA. (However, earnings of a student-owned 529 plan do not have to be reported on the FAFSA and will not affect the student's financial aid.) The first \$20,000 of parental assets falls under the Asset Protection Allowance. Any parental asset over \$20,000 will reduce a student's aid package by a maximum of 5.64% of the assets value. If the 529 plan is owned by a grandparent or other relative the value is not included on the student's FAFSA.

Withdrawals from a 529 plans will also effect a student's FAFSA amount. However, this also depends on who is the account owner. Withdrawals from a parent or student owned 529 plan does not get reported on the student's FAFSA. Any money withdrawn from the plan and used to pay for the student's qualified tuition and expenses will not affect FAFSA. The student runs into trouble when the account is owned by a grandparent or other relative. Withdrawals from a grandparent accounts will be counted as untaxed student income on the FAFSA and student income is assessed at 50%. Therefore, if the grandparent uses his/her 529 account to pay \$10,000 of college expenses it would reduce the grandchild's eligibility for aid by \$5,000.

When applying for FAFSA the student reports prior-prior year income. Therefore,

one way to avoid this problem is to wait to take a withdrawal until the student's second semester of their sophomore year. Another option is to roll one year's worth of funds at a time from the grandparent's 529 plan to the parent's 529 plan. If you wait until after the student's FAFSA is filed it will not get reported as an asset and then when it is withdrawn from the parent's account there is no income to account for.

Changing a 529 Plan Beneficiary

A 529 plan is designed to save for education expenses for a single beneficiary. The question arises when the beneficiary graduates and there is still money in the account. A 529 plan account owner can change the beneficiary at any time and beneficiary changes are not treated as a distribution when the new beneficiary is a member of the family of the current beneficiary. The IRS provides a broad definition of a family member, which includes the beneficiary's blood relatives and relatives by marriage and adoption, including spouses, siblings, nieces, nephews, first cousins etc. Distributions used to pay for college expenses for anyone other than the beneficiary will be subject to income tax and a 10% penalty on the earnings.

Recommendation

There are pros and cons to both parent/student and grandparent owned 529 plans. However, the use of a 529 plan will almost always produce favorable results compared to a normal savings account. The benefits include: income tax breaks, the donor is in control over the account, low maintenance, simplified tax reporting, and flexibility. It is important to remember each state has its own set of rules but you can open an account in any state of your choosing. Therefore, you should research the plan benefits for a state before you make a decision. Feel free to contact any member of our firm if you have any questions on this topic.

PUBLICATIONS

All of the following professional publications and past newsletters written by attorneys of this office are available by clicking here: http://pozzuolo.com/Pubs_Articles.shtml

Corporate/Tax Articles

- Bankruptcy - How To Prevent It And How To Cope With It Should It Happen To Your Business
- Deferred Compensation Rewards And Retains Key Employees
- Design Buy-Sell Agreements For Maximum Utility
- How An S Corporation Avoids The Double Taxation Incurred When Excessive Compensation Is Treated As A Dividend

- How Mortgage Lenders Should Draft Broker Agreements To Avoid RESPA Violations
- How To Look, Act And Sound Like A Professional Corporation
- How to Structure a Suitable Buy-Sell Agreement
- How To Use Non-Qualified Deferred Compensation Arrangements As A Business, Retirement And Tax Planning Tool
- Money Purchase Pension Plan Falls Out Of Favor
- Protecting A Client's Business From Unfair Competition Using Restrictive Covenants
- Structuring Loans From Qualified Plans - How To Handle The Strict Tax Rules
- What Type of Qualified Corporate Retirement Plan Best Serves Your Business, Tax And Retirement Needs
- Why An Employment Contract Is Mandatory

Estate Planning Articles

- Adapt Estate Planning Strategies to Fit the Needs of Same-Sex Couples
- College Funding Tool Offers Estate Planning Advantage
- Diversify Strategies For An Effective Estate Plan
- Divorce and Estate Planning
- Divorce Raises The Need For Performing An Estate Planning Review
- Drafting The Durable Power Of Attorney For Wealth Protection Purposes
- Estate Planning For Pet Owners
- Remarriage Situations Can Raise Special Estate Planning Considerations
- Six Proven Estate Planning Techniques
- Special Needs Trust - An Estate Planning Tool For The Disabled
- The Limited Liability Company -A Sophisticated Tool For Estate Planning
- Using Trusts To Maximize Family Protection And Minimize Estate Tax
- Why Living Wills- Advance Directives Are An Essential Part Of Estate Planning

This newsletter is courtesy of Pozzuolo Rodden, P.C.

To subscribe, unsubscribe, or for any questions, please contact us at INFO@POZZUOLO.COM.