Savings Accounts for the College Student

529 College Savings Plan

These are state college savings programs that allow funds to grow tax free for the sole purpose of paying for future college expenses. Section 529 Plans differ from state to state so be sure to research your states plan. These funds can be used for tuition, books, supplies, fees, and even room and board costs. Withdrawn funds from a 529 account for educational expenses are free from federal income tax. A custodial 529 plan is treated as an asset to the parent on FAFSA, therefore it has a low impact on financial aid for a dependent student.

Learn more: <https://www.sec.gov/reportspubs/investor-publications/investorpubsintro529htm.html>

Custodial Savings Accounts

This type of account is set up by a parent, guardian, or relative who will retain control of the account until the child reaches the age of majority. Income from this type of account needs to be reported on the child’s tax return and is taxed at the child’s rate. The custodian can not place any restrictions on the use of the money when the minor becomes an adult. This type of account does have an impact on financial aid eligibility.

Learn more: <https://www.finaid.org/savings/ugma.phtml>

Coverdell Education Savings Account

A Coverdell Educations Savings Account, or ESA, was created by Congress to encourage more people to save for their education expenses. Annual contributions grow tax free and can be withdrawn as needed for the beneficiary (who must be under the age of 18). If used to pay for eligible education expenses, withdrawals can be tax free. This type of account can also be used to pay for K-12 expenses tax-free. Just like a 529 account, funds from an ESA owned by a parent or dependent student will need to be included when applying for FAFSA.

Tax information for an ESA: <https://www.irs.gov/pub/irs-pdf/i5498e_19.pdf>

Other Savings Account

Its always a good idea to build up a finances for college in a traditional savings account or money market account.