Florida 529 FAQs

- **What is a 529 Plan?**

A 529 Plan is a savings vehicle designed specifically for higher education expenses. The name "529" comes from Section 529 of the federal tax code, which authorizes states to offer the plans. There are two types of 529 Plans – Prepaid and Savings, and both Prepaid Plans and Savings Plans are authorized 529 college savings plans. Earnings in 529 Plans are tax-free when they are used for **Qualified Higher Education Expenses**. In general, qualified expenses include tuition, fees, room and board, and the cost of books, supplies and equipment required for the enrollment or attendance at an **Eligible Educational Institution**, including undergraduate, graduate, and vocational/technical schools.

- **What is the difference between a Prepaid Plan and a Savings Plan?**

A Prepaid Plan is basically a prepackaged college savings plan covering specified college costs in the future. Prepaid Plans simplify saving for future college costs. You do not have to worry about how much to save, when to save or how to invest with a Prepaid Plan. Simply pick a plan, make your payments, and when your student is ready for college, the plan pays for the costs covered by the plan. The Prepaid Plans offered by the Florida Prepaid College Board are guaranteed by the State of Florida, so you can never lose what you've paid toward the plan.

A Savings Plan allows you to develop your own plan to save for college. You decide how much you want to save and when you want to save. You also get to choose how you want to invest your savings using the investment options offered by the plan. When it comes time for college, you use your savings to pay for actual college costs at that time. Savings Plans are not guaranteed, so the value of your investment is subject to market fluctuations.

- **Can I enroll in both a Prepaid Plan and a Savings Plan?**

Yes. Prepaid and Savings Plans work well together. For example, you could use a Prepaid Plan to cover up to four years of tuition and fees and a Savings Plan to pay for books, a computer, room and board. If you don't want to use a Prepaid Plan to save for all four years of tuition and fees, you could purchase a 2-Year Florida College Plan or one or more 1-Year University Plans and also open a Savings Plan.

When deciding how to save, focus on your investment preferences. For example, do you prefer guaranteed investments (Prepaid) or investment control (Savings)?

Also, consider what you can afford. You may want to, but you don't have to save for everything. Parent surveys suggest that most parents anticipate paying 40% of their child's higher education expenses.

- **How does a 529 Plan compare to other college savings vehicles?**

Savings vehicles like 529 Plans offer distinct advantages over traditional checking or savings accounts, namely the opportunity for tax-free earnings. Here is how 529 Plans compare to other college savings vehicles.

	529 Plans	**Coverdell Education Savings Accounts**	**Qualifying U.S. Savings Bonds**	**UGMA/UTMA**
Federal Income Tax	Contributions made with after-tax funds; earnings excluded from income for federal tax purposes when used for qualified college expenses	Contributions made with after-tax funds; earnings excluded from income for federal tax purposes when used for qualified college and K-12 expenses	Certain "EE" and "I" bonds may be redeemed tax-free for college expenses	First $1,050 is tax-exempt; unearned income over $2,100 for certain children under age 24 is taxed at parent rate
Federal Gift Tax Treatment	Contributions treated as gifts; annual and 5-yr… federal exclusions apply	Contributions treated as gifts; annual federal exclusions apply	Not considered a gift	Contributions treated as gifts; annual federal exclusions apply
Federal Estate Tax Treatment	Value excluded from contributor's estate; included for death during 5-yr.. election period	Value excluded from contributor's estate	Value included in owner's estate	Value excluded from contributor's estate

	529 Plans	Coverdell Education Savings Accounts	Qualifying U.S. Savings Bonds	UGMA/UTMA
Maximum Investment	$500,000 per Beneficiary in Florida	$2,000 per Beneficiary per year (all sources)	$10,000 face value per year, per owner, per type of bond	No limit
Qualified Expenses	Tuition, fees, books, computers and related equipment, supplies, special needs; room and board for minimum half-time students	Tuition, fees, books, supplies, equipment, special needs; room and board for minimum half-time students; additional categories of K-12 expenses	Tuition and fees	No restrictions
Change Beneficiary	Yes (member of family)	Yes (member of family)	Not applicable	Prohibited
Time/Age Restrictions	Prepaid: Enroll before 11th grade, 10-yr.. benefit period Savings: None	Contributions before Beneficiary reaches age 18; use of account by age 30	Bond purchaser must be at least 24 years old at time of bond issuance	Custodianship terminates when minor becomes adult
Income Restrictions	None	Contributions limited for	Interest exclusion for incomes	None

	529 Plans	Coverdell Education Savings Accounts	Qualifying U.S. Savings Bonds	UGMA/UTMA
		incomes approx. $100K and above	approx. $77K and below	
Federal Financial Aid	Asset of parent if owner is parent or dependent student	Asset of parent if owner is parent or dependent student	Counted as asset of bond owner	Counted as asset of the student
Use for Non-Qualifying Expenses	Withdrawn earnings subject to federal tax and 10% penalty	Withdrawn earnings subject to federal tax and 10% penalty	No penalty; interest on redeemed bonds included as income	Funds must be used for benefit of the minor

For specific information about your situation and options, please consult an investment adviser or certified public accountant.

- **What is a Beneficiary?**

A Beneficiary is the person whom you are saving for.

- **What are Qualified Higher Education Expenses?**

Qualified Higher Education Expenses are defined in Section 529 of the federal tax code. They include:

- Tuition;
- Fees;
- Room and board expenses during an academic period in which the student is enrolled at least half-time in a degree, certificate or other program that leads to a recognized educational credential awarded by an **Eligible Educational Institution**;
- Textbooks, supplies and equipment required for enrollment or attendance

    - Computers, peripheral equipment, software and internet service primarily used by the student; and
    - Special needs services incurred in connection with enrollment or attendance.

- **What is an Eligible Educational Institution?**

An **Eligible Educational Institution** is an accredited postsecondary institution offering credit toward a bachelor's degree, an associate's degree, a graduate-level or professional degree, or another recognized postsecondary credential. Certain proprietary institutions and postsecondary vocational institutions are also Eligible Educational Institutions. The institution must be eligible to participate in a student financial aid program under Title IV of the Higher Education Act of 1965 (20 U.S.C. Section 1088).

To check the eligibility of a school, visit **Federal School Code Search** or contact the school directly.

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Scholarships and Financial Aid Impact

- **Does a 529 Plan impact financial aid eligibility?**

Any non-retirement investment or savings account may affect your eligibility for financial aid. A portion of your Prepaid and Savings Plan value may be considered when evaluating student aid eligibility with the Free Application for Federal Student Aid (or FAFSA).

Up to 5.64% of parental assets can be counted, which is favorable compared to student assets, which are counted at 20%. **Grandparent (or other third party) accounts for the student are no longer required to be reported and therefore no longer impact aid eligibility.**

Many changes were made to the FAFSA form beginning with the 2024-2025 school year. To stay informed and learn more, visit **studentaid.gov** or an educational financial aid adviser.

- **Does having a 529 Plan impact scholarship eligibility?**

In general, a 529 Plan should not affect eligibility for merit–based scholarships. Having a 529 Plan will not prevent you from receiving a Bright Futures Scholarship in Florida. In fact, if your child receives a Bright Futures Scholarship and you also have a Prepaid Plan, excess monies can be used to pay for other **Qualified Higher Education Expenses** such as textbooks, supplies and housing.

For more information about the Bright Futures Scholarship, please call 1-888-827-2004.

- **Where can I find more information about saving for college using funds from a Family Empowerment Scholarship?**

We have answers to a number of questions relating to the **Family Empowerment Scholarship Program**.

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Tax-Related

- **What are the estate tax benefits of 529 Plans?**

Contributions to a 529 Plan are generally considered completed gifts to the student and may be contributed, up to federal gift tax limits, to a plan without being subject to federal gift tax on the contributor(s). Such contributions are not included in the contributors' estate for federal estate tax purposes.

Federal tax law does allow an individual to contribute in excess of the annual gift tax limit by treating certain contributions as if they were made over a five-year period. These contributions are not included in the contributors' estate for federal estate tax purposes. However, this approach requires filing a gift tax return and, if the contributor dies before the end of the five-year period, the portion of the contribution allocable to the remaining years in the five-year period will be included in the contributor's gross estate for federal estate tax purposes. The IRS has established lifetime exclusions such that no gift tax will be due until the lifetime exemptions have been used.

For specific information about your situation, please consult an investment adviser or certified public accountant.

- **Can I claim a federal income tax deduction based on contributions to a 529 Plan?**

Contributions to a 529 Plan do not reduce the taxable income of the contributor for federal tax purposes because they are made with after-tax dollars, much like a Roth IRA (Individual Retirement Account).

- **Can I claim a state income tax deduction based on contributions to a 529 Plan?**

Certain states may allow contributors to deduct contributions to a 529 Plan for state income tax purposes. This does not apply in Florida because Florida does not assess a state income tax.

For specific information about your situation, please consult an investment adviser or certified public accountant.