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Paying Grandkids' College Bill



Driving many families' interest is the skyrocketing cost of a college education. Harvard University, for example, increased its undergraduate tuition by 3.8% for 2011-12, with tuition, fees, room and board now topping \$52,000 a year. Many state schools aren't cheap, either: Costs for in-state freshmen at the University of Michigan are estimated to be about \$24,000 in 2011-12.

Of course, a trust owes income tax on its earnings.

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Not only are the assets you contribute to 529 accounts no longer part of your estate, but the capital appreciation, capital gains, dividends and interest are also no longer part of your estate.

Unlike traditional trusts that owe income tax on their earnings, earnings inside 529 accounts are free from income tax as long as the withdrawals are used for higher education expenses (e.g.: undergraduate education, business school, law school and medical school).

Grandparents concerned about their grandchildren being penalized when applying for financial aid should consider naming themselves as the beneficiary on their 529 accounts. Since the grandchildren are neither the owner nor the beneficiary on the accounts the 529 account assets cannot be taken into consideration for financial aid.

Fortunately, there are no tax consequences if you change the designated beneficiary to another member of the family – according to the Internal Revenue Service. Following multiple years of financial aid, grandparents can then change the beneficiary on 529 accounts from their own name to their grandchildren.

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