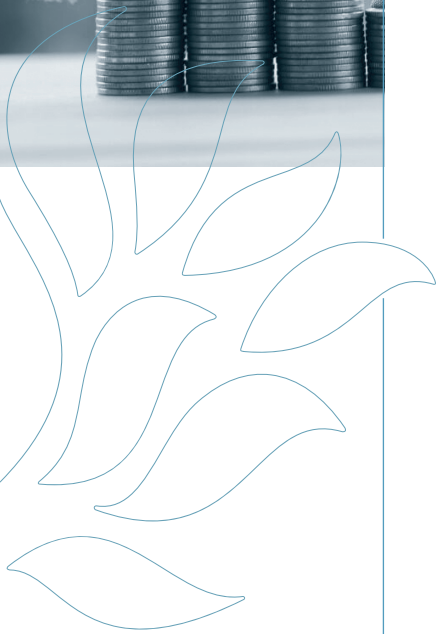


Exploring Florida 529 Plans



Florida's 529 plans offer tax-advantaged growth opportunities and are more flexible than ever.

A CHILD'S EDUCATION CAN BE COSTLY. Preparing and saving early is advisable for most people. Florida's 529 Plans, officially known as the Florida Prepaid College Program and the Florida College Investment Plan, have become popular options for parents and guardians in Florida. They offer tax-advantaged growth opportunities and, with the passing of the federal legislation Secure Act 2.0, are more flexible than ever.

TYPES OF 529 PLANS

A Section 529 Plan, or Qualified Tuition Program (QTP), is a state-administered initiative designed to help individuals save for their loved ones' higher education expenses. According to the SEC's Office of Investor Education and Advocacy, there are two types of 529 plans: Education Savings Plans and Prepaid Tuition Plans. Education Savings Plans offer flexibility and a wide range of investment options to cover various education expenses, including tuition, fees, and more, at any institution. Prepaid Tuition Plans involve pre-purchasing tuition credit for in-state colleges, limiting usage and flexibility. Education Savings Plans have no or minimal residency requirements while Prepaid Tuition Plans often mandate state residency.

529 PLAN TAX ADVANTAGES

There are numerous federal tax advantages when you invest in a Section 529 Plan. According to the IRS, these advantages include:

- Earnings grow tax-free within the account.
- Generally, beneficiaries do not need to report earnings from a QTP as part of their taxable income.
- Distributions become tax-free when utilized for qualified higher education expenses, including tuition at elementary or secondary public, private, or religious schools. However, if a distribution surpasses the beneficiary's qualified expenses, a portion of earnings becomes taxable.
- Funds can also be withdrawn to cover the principal or interest on a designated beneficiary's or their sibling's student loan, with a lifetime limit of \$10,000 for loan repayments per individual. Note that interest paid using these funds does not qualify for the student loan interest deduction.



One of the biggest advantages of a Florida 529 Plan is its favorable tax treatment.

In addition, there are many state income tax and state estate and inheritance tax benefits that you may be able to obtain. For example, funds in Pennsylvania's 529 plan are exempt from Pennsylvania's inheritance tax. Of course, in my home state of Florida it's a non-issue because we have neither an income tax or an inheritance tax.

WHAT SECURE ACT 2.0 CHANGED

The 529 education savings plan offers tax-free growth, but its usefulness varies by state and there's a 10 percent penalty for non-educational withdrawals. Historically, having a 529 carried some risk. If your child decided not to go to college, received scholarships, or opted for an affordable in-state school, you were left with surplus funds in your account that would be penalized upon withdrawal.

In December 2022, Congress signed the Secure Act 2.0 into law which introduced dozens of provisions to help improve retirement outcomes from automatic 401(k) enrollment to IRA catchup contributions. It also allows for penalty-free conversion of up to \$35,000 from a 529 plan to a Roth IRA, subject to Roth IRA contribution limits and a 15-year account requirement.

A CLOSER LOOK AT FLORIDA'S 529 PLAN

One of the biggest advantages of a Florida 529 Plan is its favorable tax treatment. The earnings on investments grow tax-free and withdrawals used for qualified education expenses are also tax-free. Qualified expenses include tuition and fees for attending eligible educational institutions, mandatory enrollment fees, and required educational expenses. Room and board costs can also be considered qualified expenses for students enrolled at least half-time, though they are subject to certain limitations based on the school's published costs.

Expenses related to books, supplies, and required course materials are also eligible for 529 plan withdrawals. If a beneficiary has special needs, the costs of adaptive equipment or services can qualify. Another notable feature is that up to \$10,000 per year per beneficiary can be withdrawn for K-12 tuition expenses at public, private, or religious schools. However, you must use the funds for qualified education expenses within the same tax year as the withdrawal to maintain the tax advantages. Using the funds for non-qualified expenses may subject the earnings portion of your withdrawal to income tax and a 10 percent federal tax penalty. It is advisable to consult with a qualified tax advisor or financial professional to ensure that the intended use of the funds aligns with qualified education expenses and adheres to IRS regulations.

Florida 529 Plans are professionally managed, allowing you to benefit from the expertise of investment managers making strategic decisions designed to grow the funds over time. This is particularly helpful for people who prefer a hands-off approach to managing investments.

There are no income limitations for participating in a Florida 529 Plan, so individuals from all income brackets can participate and save for education. As well, family

By using Florida's 529 plans you can pave the way for your child's bright future.



members and friends can contribute to the Florida 529 Plan on behalf of the beneficiary, making it an ideal vehicle for financial gifts for educational purposes. And, given the recent update to allow rollovers into Roth accounts, contributors can rest assured the funds will be available to be used throughout different phases of one's life.

LIMITATIONS OF A 529 PLAN

There are some limitations to investing in a 529 Plan. While professional management is generally considered an advantage, it also means that investors have limited control over their investment choices. The available investment options within the plan may not align perfectly with your risk tolerance and preferences. Funds in a Florida 529 Plan are also considered an asset of the account owner (usually the parent), which can affect the student's eligibility for need-based financial aid. Also remember that if you withdraw funds from your Florida 529 Plan for non-qualified expenses, you may be subject to income taxes and a 10 percent federal penalty on the earnings portion of the withdrawal. So investing in a 529 does place restrictions on the money and is the price you pay for the associated tax advantages.

As mentioned above, 529 Plans can now be rolled into Roth IRAs, but only after they have been open for 15 years. There is a lifetime contribution limit of \$35,000 to the Roth IRA. However, when you consider that beneficiaries can be changed to other relatives or even yourself without tax implications, the rollover option is a powerful new tool. Parents no longer need to worry about unused funds being inaccessible. Funds in a Roth can begin growing to help ensure financial security in the future or to provide an emergency fund.

Starting early and contributing regularly to a Florida 529 Plan can make a significant difference in the growth of your child's education savings. By planning wisely, you can pave the way for your child's bright future and educational success. As with any financial decision, it's advisable to consult with a qualified financial advisor to determine if a Florida 529 Plan aligns with your specific financial goals and circumstances.

IMPORTANT DISCLOSURES

The information included in this document is for general, informational purposes only. It does not contain any investment advice and does not address any individual facts and circumstances. As such, it cannot be relied on as providing any investment advice. If you would like investment advice regarding your specific facts and circumstances, please contact a qualified financial advisor.

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