

Dear CCS families,

Happy 529 day! May 29th is a fitting time to call your attention to a creative way to save money on your CCS tuition using a 529 Savings Plan.

How would you like to save 3.07% on your tuition payments each year?

The Tax Cuts and Job Act of 2017 signed into law this past December included a change in the withdrawal rules for 529 College Savings Plan accounts. Previously, tax-free withdrawals from 529 accounts were exclusively limited to paying for qualifying college expenses. The tax reform act contained a provision that expanded tax-free withdrawals for private K-12 tuition expenses. Now up to \$10,000 per child per year can be withdrawn tax-free from a 529 Plan account to pay private K-12 expenses.

So how does that save you money? The state of PA incentivizes its taxpayers to save for education by allowing them to deduct contributions to 529 Plans from their taxable income which is taxed at 3.07%.

It works like this. You or your spouse opens a 529 account naming yourself as the account owner and your child as the beneficiary. Prior to making a tuition payment to CCS, you make a contribution to the 529 account which triggers your eligibility for the state income tax deduction - provided you have PA taxable income. After that, you withdrawal the funds and make your tuition payment to CCS.

**Please note:** A separate 529 account should be established for each child. Anyone may contribute to your child's 529 Plan and receive a PA income tax deduction provided they have PA taxable income to apply it against. That means parents, grandparents, other relatives, family friends, etc.

An example of potential savings using round numbers: if you pay \$10,000 for Johnny's annual tuition and run it first through a 529 plan, your PA tax savings will be 3.07% or \$307/year.

What could you do with your new found savings???. Most of us would have no trouble coming up with any number of ways to spend a little extra cash. The genesis of this idea actually came out of our capital campaign. One of our guiding principles for the campaign has been to develop funding resources outside of our patron families who are already shouldering tuition payments. Of course, we'd never discourage a patron who wanted to donate to the capital campaign :)

Along these lines, we've also shared some creative ways to give that might allow patrons to support the campaign without requiring an additional out of pocket cash outlay. This is one such idea. Did you know CCS receives roughly \$2 million of tuition annually? If even half of that money flowed through this strategy and the tax savings were gifted back to the school, that would be almost \$31,000 annually at 3.07%. How cool is that???. Whether you get excited

about this idea and feel lead to donate to the Capital Campaign in this way or simply implement the idea to put some money back in your pocket, we wanted to be sure you knew about it. Additional information follows.

### **Where and how do I setup 529 Plan accounts for my children?**

529 accounts can be established through a large number of financial institutions. Since this strategy is designed primarily as a short-term pass through to obtain the state income tax deduction, it's important to use a provider with low costs and ease of account administration. You can also enroll directly through the PA 529 Plan department which is suggested.

**Please note:** There are two versions of the PA 529 Plan, the Investment Plan (IP) and the Guaranteed Savings Plan (GSP). The **Investment Plan** is recommended for this strategy because funds must be in the Guaranteed Savings Plan for at least one 1 year to receive an interest credit.

### **Enrolling in the PA 529 Investment Plan:**

- There are no enrollment fees, transfer fees or commissions. The only account fee is a \$10 annual maintenance fee if you elect to receive paper statements. That fee is waived if you opt for electronic statement delivery.
- Investment options: Vanguard is the investment manager for the PA 529 Investment Plan. There are 20 different investment options ranging from conservative fixed income funds to aggressive stock funds to age based portfolios. Since the objective is primarily the tax deduction and your deposits are short term in nature, it's advisable to avoid investment risk and simply have your contributions invested 100% in the Vanguard Interest Accumulation Portfolio (also referred to on the site as the Short Term Reserves Fund). This is essentially a money market fund or cash equivalent earning modest interest with very low risk. As of April 30, the fund had a trailing one year return of 1.30%. Link to investment options: <https://www.pa529.com/investment-plan/>
- Account establishment, deposits and withdrawals can all be initiated via the PA 529 Investment Plan website and are very efficient between your 529 account and your primary bank checking account. It takes just 15 minutes or so to open an account. On the following web page, there's a helpful list of information to have handy when you start your application. There's also a link to complete the enrollment process. <https://www.pa529.com/enroll/>
- The PA 529 Investment Plan accepts contributions of as little as \$25. They recommend funds be in your account for at least 10 days prior to making a withdrawal to pay tuition so that record keeping occurs accurately.
- To process a withdrawal when making a CCS tuition payment, you have two options:

1) Initiate a withdrawal request with PA 529 online or by phone. Funds can be sent either by check to you or by electronic transfer to your bank checking account. Then you turn around and pay your CCS tuition bill.

2) Instruct PA 529 to send a check directly to the school. The check should be made payable to Conestoga Christian School with your student's name or ID number in the memo field and mailed to the school office at 2760 Main Street, Morgantown, PA 19543.

While either method is acceptable, having funds sent directly to CCS may be preferable in terms of avoiding the potential risk of having to provide documentation to the IRS to prove that you did in fact make qualifying tuition payments to the school.

- PA 529 Enrollment Specialists are available at 800.440.4000 if you have questions or need help establishing an account.

This is not meant to be a comprehensive overview of all features of 529 Plan accounts. For additional information about the PA 529 Plan, please visit: <https://www.pa529.com/learn/> or see the attached Enrollment Guide.

Please be advised that CCS cannot provide tax advice. Please speak with your tax advisor or a qualified CPA if you have questions about how this strategy fits within in your specific tax situation.