THE OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

Tax Season: the Right Time to Plan for College Savings

CHET's Tax Considerations for Parents (and Grandparents) of College-Bound Children

Hartford, CT – March 25, 2008 – Connecticut State Treasurer Denise L. Nappier is urging Connecticut residents to use the remainder of this tax preparation season to plan ahead for tomorrow's college expenses. Nappier is trustee for the Connecticut Higher Education Trust (CHET), the state's 529 college savings plan, which last year saw record contributions of $230 million and overall program growth to more than $1 billion.

"For most families, contributions to CHET can provide significant tax advantages," Nappier said. "And as Connecticut parents, grandparents and others prepare their tax filings this season and assess their short- and long-term financial situations, it's important for them to think about a college savings strategy for the children in their lives. Not only can CHET contributions grow free from federal and Connecticut state taxes and provide them with the potential to earn a significant tax break, their children can get that much closer to the goal of a college education."

For those who didn't take advantage of the tax benefits in 2007, now is an appropriate time to meet with a financial advisor to discuss planning options. With that in mind, Nappier and tuition consultants at TIAA-CREF Tuition Financing, Inc., the program manager of CHET and nine other 529 plans, point out several potential tax-related advantages for parents to consider as they devote their energy to meeting the April 15 tax filing deadline.

Many financial advisors agree that 529 plans offer important benefits as college costs continue to rise. For example, over the past five years, the average cost of tuition, fees, room and board rose 40% at public four year-year schools, according to The College Board, a nonprofit association of colleges and educational organizations. Nappier says escalating costs underscore the need for families to plan for college expenses, and she points out four tax-related advantages taxpayers should keep in mind when filing their taxes.

State Income Tax Deduction

First, because the CHET program is the only 529 college savings plan that offers Connecticut residents a state income tax deduction, Nappier encourages families to consider its advantages and to discuss this option with their financial advisors. Taxpayers in Connecticut may deduct contributions made to one or more CHET accounts during the tax year from their Connecticut adjusted gross income within the annual contribution deduction limits of (1) $5,000 for filers who are single, head-of-household, or married/civil union filing separately; and (2) $10,000 for filers who are married/civil union filing jointly, or widow(er) with dependent child. These limits apply on an aggregate basis (not a per beneficiary basis) to all contributions made to all CHET accounts during the tax year.

New "Kiddie Tax" Changes

"Kiddie Tax" changes went into effect on January 1, 2008. Under the revised Kiddie Tax rules, any unearned investment income above $1,700 in custodial accounts is now taxed at the parents' rate – and not the child's tax rate – which is usually higher. In contrast, 529 plans can grow federal tax-free and therefore may be worth a closer look for parents who are saving for college. Of course, the most appropriate option depends on the parents' individual circumstances. Parents should therefore carefully consider the pros and cons of both 529 plans and custodial accounts in light of their personal situations.

Gift Tax Advantages
Nappier and TIAA-CREF also encourage taxpayers to consider giving the gift of education savings to a child, grandchild, niece or nephew. They say parents, relatives and friends should be aware that federal tax law allows each taxpayer to give up to $12,000 per year without incurring gift taxes. So if both parents contribute, the limit is $24,000 annually for each beneficiary.

Those who can afford to make larger gifts should be aware of another provision of the tax law that governs gifts to minors. If the gift is made to a 529 college savings plan, for example, up to five years' worth of contributions can be made in a single year. That means grandparents could contribute up to $60,000 to their grandchild's 529 account in a single year. If both grandparents make the gift, the limit is $120,000. Any additional contributions or other gifts during the following five years, however, would incur gift tax consequences. For tax purposes, grandparents' contributions are treated as completed gifts and therefore reduce the size of their own estates – even if the grandparent maintains control of the 529 account. Gifting can be a complicated issue so consulting with a tax advisor is advised.

Permanent Federal Tax-free Withdrawals
Finally, in 2006, the law governing the federal income tax treatment of qualified withdrawals from 529 plans changed – for the better. Now, federal tax-free withdrawals from 529 plans for qualified expenses, such as tuition, are permanent.

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The tax information contained in this release is not intended to be used, and cannot be used by any taxpayer, for the purpose of avoiding tax penalties that may be imposed on the taxpayer. It was written to support the promotion of the products and services available through CHET. Taxpayers should seek advice based on their own particular circumstances from an independent tax advisor. Neither TIAA-CREF nor its affiliates provide tax advice.

The Connecticut Higher Education Trust College Savings Program (CHET) is administered by the Connecticut State Treasury. TIAA-CREF Tuition Financing, Inc. (TFI) serves as Program Manager. TFI's affiliate, TIAA-CREF Individual & Institutional Services, LLC, member FINRA, is the distributor.

Consider the investment objectives, risks, charges and expenses before investing in the Connecticut Higher Education Trust College Savings Program. Please call toll-free 1-888-799-2438 for a Disclosure Booklet containing this information. Read it carefully. Before investing in a 529 plan, you should consider whether the state you or your designated beneficiary reside in or have taxable income in has a 529 plan that offers favorable state income tax or other benefits that are only available if you invest in that state's 529 plan.

The State of Connecticut, its agencies, TIAA-CREF Tuition Financing, Inc., Teachers Insurance and Annuity Association of America and its affiliates do not insure any account or guarantee its principal or investment return except for TIAA-CREF Life Insurance Company's guarantee to CHET under the funding agreement for the Principal Plus Interest Option. Account value will fluctuate based upon a number of factors, including general market conditions.

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