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Push to Preserve 529 Tax Savings Builds Steam

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One week after a slew of House representatives threw their support behind making the tax benefits of 529 college savings plans permanent, the two highest-ranking members of the Senate's finance committee are expected to introduce similar legislation.

Today, Sen. Chuck Grassley (R-Ia.), chairman of the Committee on Finance, and Sen. Max Baucus (D-Mont.), ranking member, are expected to introduce legislation to make the tax provisions, currently set to expire or "sunset" at the end of 2010, permanent.

Sens. Gordon Smith (R-Ore.), Ron Wyden (D-Ore.), James Jeffords, (I-Vt.) and Mary Landrieu (D-La.) are co-sponsors of the Senate legislation.

Currently, when the beneficiary of the 529 account makes a withdrawal to pay for qualified higher-education expenses, which covers tuition, books or even housing, they receive certain tax breaks. However, those breaks are guaranteed only through 2010, and unless legislation is passed, students entering college after that year may not be entitled to the tax benefits currently available on 529s.

This has become a serious concern in the 529 industry as the tax benefits are one of the plans' biggest selling points. Also, having to explain the potential change after 2010 can be difficult when dealing with investors who are not familiar with the plans. Such disclosures in marketing materials can be even more distracting.

"It's definitely been the number one on everyone's list of important things to do, but everyone went in believing the provisions would be lifted in the first place," says **Financial Research Corp.** 529 analyst Brian Boswell.

Tax exemptions were granted to the college savings plans by Congress in 2001.

Boswell says he expects to see the bill pass. If the current tax breaks expire, the federal government will collect more in taxes. But, he says, waiving that small amount in taxes is more than worth it because it will promote a more educated populace.

The Investment Company Institute also supports making the provision permanent, according to spokesman Jamie Doyle.

"We feel it should remove uncertainty and encourage long-term savings," says Doyle.

The Senate bill follows an identical bill introduced in the House last week. That bill, known as the College 529 Invest in Education Savings for Tomorrow Act of 2005, has support from both sides of the aisle.

Reps. Melissa Hart (R-Pa.) and Earl Pomeroy (D-N.D.) introduced the bill. Reps. Richard Neal (D-Mass.), Paul Ryan (R-Wis.), Jim McCrery (R-La.), Benjamin Cardin (D-Md.), Phil English (R-Pa.), Darlene Hooley (D-Ore.), Chris Chocola (R-Ind.), Nancy Johnson (R-Conn.), John Lewis (D-Ga.) and Sam Johnson (R-Tex.) all co-sponsored the bill.

Tim Berry, chairman of the **College Savings Plan Network** and the state treasurer of Indiana, says he is encouraged by the broad, bipartisan support for the measure. "Now is the time to be talking about this because families are planning for how they are going to be paying for college," he says.

Berry says there have been discussions in the past with Congress to make the provisions permanent, but he hasn't seen this kind of momentum before.

The legislation's chances of getting through Congress are immediately elevated with Grassley and Baucus sponsoring the Senate bill, says Neils Holch, of law firm **McGuinness & Holch**.

Holch says Grassley and Baucus's stature and standing in the Senate immediately give increased importance and visibility to the bill. "When a committee chair and ranking member sponsor it, it has a much better chance of going

through."

He also says the fact that it has a companion bill in the House bodes well for the bill. "When you see a bill in the House and Senate, that means an idea is further along," he says.

Holch thinks the permanency legislation could eventually be lumped into a tax, savings or retirement savings bill.

Stacey Belford, 529 plan business manager at **American Century**, says getting permanency for both the industry and investors is important. The longer the status is up in the air, the more difficult it can make it for families to plan for their child's college education.

"Every year we get closer to that [sunset] date, it cause a little more of a roadblock to growth in the industry."

Assets in 529 plans grew to \$52.3 billion at the end of last year, a big leap up from the \$35.1 billion at the end of 2003, according to FRC

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