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S. Harris Financial Group
INNOVATIVE STRATEGIES + PERSONAL FOCUS

Timely Topic
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What Should You Do with That Refund You Receive from Your Child's College?

While the severe volatility of the stock market has calmed thus far in April, we know that COVID-19 has created adjustments for each of us in ways we could not have imagined two short months ago. For us, this change in routine has made time feel like it's slowed, and the lack of planned activities has provided a break in a typically busy spring schedule.

One big adjustment in the Harris household has been welcoming our first born back home from college well before we expected. Although we have enjoyed seeing Bryce daily, we know he wishes he could still be enjoying the true college experience. He is missing the in-person lectures and time with his friends, but he has had a great attitude about the loss of his time on campus. I know many other families throughout the country are having similar experiences.

As a result of the closure of college campuses and dorms, many students (or their parents) have received partial refunds of the money they paid for the Spring semester's tuition and/or room and board. This presents a potential tax risk for parents and students if the refunds received were for qualified education expenses (which include tuition and fees, room and board, books, etc.) that were originally paid with 529 funds. If the refunded amount that originally came from a 529 plan remains in your personal account, the IRS could view this as a taxable distribution for non-qualified expenses. That means potential income taxes and a 10% penalty on the earnings portion of the distribution. Thankfully, this can be avoided by recontributing refunded dollars back into the 529 plan.

The catch: Refunds must be redeposited into the 529 plan within 60 days from the date the refund was issued to avoid the tax and penalty impact.

If you are confident your child (or grandchild) will incur additional qualified education expenses over the 60 day period (new computer, tuition and fees for summer courses, books for summer courses, etc.), you could keep the funds you received to make those payments. However, we encourage you to redeposit any funds that will not be used during this period to avoid the risk of being taxed on the refund.

Because 60 days is a relatively short window of time to redeposit, we recommend you discuss this with your tax professional as soon as possible to determine the best course of action. In addition, we are available to discuss your options with you or your CPA if you would like.

We expect there will be additional volatility in the coming months, and we continue to look for the financial planning opportunities created by the COVID-19 crisis. As always, we will do our best to be proactive in reaching out about these opportunities as we see them.

While these are challenging times, we have found opportunities for growth personally, professionally, and with our family. We have had more time to exercise, do some much needed yard work and collect the never-ending supply of leaves, sit on the back patio and enjoy nature, and have more family dinners.

We are thankful for the ongoing trust you place in us. We pray that you and your family stay safe and healthy, and we look forward to hearing about the things you have enjoyed during this time of practicing social distancing.

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