

Smarter 529 Planning for Georgia Families



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As high school graduation season arrives, families are asking the same question: are we using every resource available? In Georgia, we're fortunate that much of the education-planning conversation is covered by a combination of the HOPE Scholarship and the 529 plan — but the rules around how those accounts are structured, distributed, and coordinated with scholarships and financial aid are where the real planning value lies. Below are six strategies that savvy families use but most people have never heard of. These tips and tricks aren't just for college students; several may also be utilized for K-12 expenses.

1- Grandparent-Owned 529 Accounts

Under the FAFSA Simplification Act — in effect since the 2024–25 aid year — grandparent-owned 529 accounts and distributions are no longer reported as student income on the FAFSA. Previously, a distribution from a grandparent-owned 529 counted as untaxed student income and could reduce aid eligibility by up to 50 cents per dollar distributed. **That rule is gone.** While both parent-owned and child-owned 529 Accounts qualify as assets on the FAFSA, grandparent-owned 529 Accounts do not, thereby increasing the opportunity for institutional aid.

From an estate-planning perspective, contributions to a 529 plan are treated as completed gifts, removing the assets from the grandparent's taxable estate. Grandparents may also elect to superfund the account — contributing up to \$95,000 per beneficiary (\$190,000 for married couples) in a single year — or spread the gift ratably over five years for gift tax purposes. This allows significant estate reduction in a compressed timeframe while retaining the ability to reclaim the account if the beneficiary does not pursue higher education.

Planning Note: If you have grandchildren approaching college age or parents who want to help fund education, a grandparent-owned 529 may now be the most tax-efficient and financially savvy way to do it. This is a strategy worth reviewing before the next FAFSA filing window opens.

Sources: FAFSA Simplification Act (P.L. 116-260, Div. FF, Title VII); IRC §529(c)(2); IRC §2503(b); IRS Rev. Rul. 98-52 (gift tax treatment of 529 contributions); FSA Handbook 2024–25, Vol. 3.

2- IRAs as Dual-Purpose Vehicles

Qualified retirement accounts (including Roth IRAs) are excluded entirely from the FAFSA asset calculation. So long as the Roth IRA has been funded for 5 years, contributions (not earnings) may be withdrawn at any time, for any purpose, **free of income tax and penalty**, because they represent dollars that have already been taxed. This makes the Roth IRA a legitimate backup for education funding if loan rates exceed a realistic market return. Worth noting: earnings may still be subject to tax.

What about Traditional IRAs? One of the few exceptions to the 10% early withdrawal penalty applies to qualified educational expenses. **Qualified** expenses are tuition and fees, not room and board. The IRS waives the penalty on the first \$10,000 withdrawn from the account, though that \$10,000 is still subject to ordinary income tax rates making this distribution less advantageous than a Roth IRA.

Planning Note: The Roth IRA is not a substitute for a 529 — it lacks the state deduction and the Roth's purpose is retirement funding. Yet, the Roth IRA offers a safety net that never locks your money into one purpose.

Sources: IRC §408A(d)(1) (qualified distributions); IRC §72(t)(2)(E) (higher education exception to 10% penalty on earnings); 20 U.S.C. §1087vv(f)(2) (FAFSA exclusion of retirement accounts); IRS Pub. 590-B.

3- The 529 Scholarship Exception

When a student receives a tax-free scholarship like Georgia's Zell Miller or HOPE scholarship, families often stop 529 distributions entirely, assuming the account must sit idle. **This is a missed opportunity.** The IRS actually allows a distribution from a 529 plan up to the amount of scholarship, to the extent the distribution does not exceed the amount of any tax-free scholarships received by the beneficiary. If your star student earns a \$5,000 scholarship, \$5,000 can be withdrawn from their 529 penalty-free.

The earnings portion of that distribution is still includible in the beneficiary's gross income, but the 10% penalty does not apply. For Zell Miller recipients covering full tuition and fees, this can free up meaningful 529 assets to be redirected, rolled into a Roth IRA (see SECURE 2.0 below), or used for qualified room and board, books, and cost-of-living expenses that the scholarship does not cover.

Planning Note: If your student earned Zell Miller or HOPE, congratulations — and don't let that 529 sit idle. There are still qualified expenses the scholarship won't touch, and penalty-free withdrawal options you may not know you have. A quick review of your account could unlock money you thought was untouchable.

Sources: IRC §529(c)(3)(B)(v) (scholarship exception to 10% penalty); IRC §117 (tax-free scholarship definition); IRS Pub. 970, Chapter 8 (529 plan distributions); O.C.G.A. §20-3-519 et seq. (Zell Miller/HOPE eligibility).

4- Cost of Attendance: the Distribution Ceiling

The universe of qualified 529 expenses under IRC §529(e)(3) includes tuition, fees, books, supplies, equipment, and room and board — but the room and board limitation is tied to the institution's published Cost of Attendance (COA) figure, not the student's actual housing costs. Every Title IV-eligible institution is required to publish a COA that includes an allowance for off-campus room and board.

For a student living off-campus (not with parents), the 529 distribution for room and board may equal the school's published off-campus allowance per academic period, **even if the student's actual rent is lower than that figure.** Families should obtain the COA breakdown directly from the university's financial aid office each semester, as figures are updated annually. This is one of the most consistently underutilized qualified expense categories.

Planning Note: Most families think the 529 is for tuition and stop there. If your student is living off campus, the university's published housing allowance may entitle you to distributions you haven't been taking. This is advantaged money sitting in an already-funded account.

Sources: IRC §529(e)(3)(B) (room and board as qualified expense, limited to COA); 20 U.S.C. §108711 (statutory definition of Cost of Attendance, including off-campus allowance); IRS Pub. 970, Chapter 8; FSA Handbook 2024–25.

5- Changing the 529 Beneficiary

The IRS currently allows transfers (529 to 529) for the benefit of a "member of the family" of the original beneficiary. IRC §529(e)(2) defines "member of the family" broadly to include siblings, spouses, children, nieces, nephews, first cousins, and their spouses, as well as the beneficiary's parents. An important nuance: future children of the beneficiary are also considered a "member of the family," and successor owners may be appointed, making this a **powerful dynasty tool**. Even though there are no income tax implications when the 529 plan moves "down" a generation, the fair market value will be reported against the owner's lifetime Generation Skipping Transfer limit.

This means if a child receives a full scholarship, the account can be reassigned to a sibling, a younger cousin, the account owner's own graduate or continuing education, or held for a future family entirely income tax-free. One rollover per 12-month period is permitted per beneficiary. This feature is also the foundation for dynasty-style 529 planning, where a single funded account rolls across generations of a family indefinitely.

Planning Note: The parent-as-beneficiary use case is almost never discussed. A parent returning for an MBA or professional certification can draw on a 529 originally opened for a child, with zero tax consequence, provided the expenses are qualified at an eligible institution.

Primary sources: IRC §529(c)(3)(C) (rollover and beneficiary change rules); IRC §529(e)(2) (definition of member of the family); Treas. Reg. §1.529-5(b)(3) (12-month rollover limitation); IRS Pub. 970, Chapter 8.

6- State Tax Conformity On K–12 Distributions

The Tax Cuts and Jobs Act of 2017 expanded the federal definition of qualified 529 expenses to include up to \$10,000 per year in K–12 tuition at public, private, or religious schools. However, states are not required to conform to this federal expansion, and many do not.

Georgia is among the states that have not conformed its state income tax law to the federal K–12 expansion. Under O.C.G.A., Georgia's 529 deduction (available through the Path2College 529 Plan) is predicated on the Georgia definition of qualified higher education expenses, which does not include K–12 tuition. A Georgia resident who takes a 529 distribution for private K–12 tuition may owe Georgia state income tax, and potentially a state penalty, on the earnings portion, even though the distribution is fully qualified at the federal level. Families should verify their state's conformity status before making K–12 distributions.

Planning Note: Georgia families using their 529 for private K–12 tuition may be creating a state tax liability they don't know about. Before making that distribution, it's worth a conversation. Always verify current state guidance, as conformity legislation changes frequently.

Sources: IRC §529(c)(7) (federal K–12 expansion, added by TCJA §11032); O.C.G.A. §48-7-27(b)(5) (Georgia 529 deduction and qualified expense definition); Georgia Dept. of Revenue, IT-511 Individual Income Tax Booklet; Path2College 529 Plan disclosure documents.

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