COLLEGE FUNDING CHANGES

In late 2015, several changes were made that will impact the college applications process and college funding. If you have children or grandchildren planning for or applying for college, it's important to familiarize yourself with these new rules.

FAFSA CHANGES

First, there was a significant change made to the FAFSA (Free Application for Federal Student Aid) process in September 2015. Starting in 2016, students can file a 2017-18 FAFSA as early as October 1, 2016, rather than January 1, 2017. As a result of this change, students will now report income information from an earlier tax year. So, if you or your child or grandchild is filing a FAFSA for the 2017-18 school year, you will report your 2015 income information instead of your 2016 income information.

These changes were made to offer a few benefits. First, the financial aid process is now more aligned with the standard college admission process, as most college applications begin in the fall. Secondly, applicants will no longer need to estimate income or taxes paid, as they'll use a previous year's tax information. And thirdly, this provides students and parents more time to explore and understand their financial aid options and apply before state deadlines.

Due to these changes, grandparents have greater flexibility to make the most of their education savings accounts for their grandchildren. Rather than wait until the grandchild's final year of college, you only need to wait until their junior year (which technically includes the second semester of sophomore year for many school year calendars). If you wait until then, your education savings plan won't affect federal aid under either income-inclusion or asset-inclusion.

EDUCATION SAVINGS PLAN CHANGES

In December 2015, President Obama signed the Protecting Americans from Tax Hikes (PATH) Act, which affects education savings plans in three major ways:

1. Qualified Higher Education Expenses (QHEE)

Under the new rules, QHEE include expenses for the purchase of computers and accompanying equipment (such as a printer), Internet access and similar services, and computer software. These expenses only qualify if they are used primarily for the beneficiary during their school years. Expenses for non-educational computer software is excluded.

2. Refund Eligibilities

If you receive a refund by an educational institution for qualified expenses paid with college savings funds, you can re-contribute the money to an education savings plan if the student is the beneficiary. If you recontribute within 60 days of the refund, you can avoid inclusion in income.

3. Aggregation No Longer Required

If you have multiple accounts in an education savings program with the same owner and beneficiary, you no longer need to aggregate them to compute the earnings portion of a distribution. As of the new ruling, the earnings portion of an education savings program distribution will be computed individually on an account-by-account basis.

Next Steps

Are you looking for opportunities to plan for your children's or grandchildren's college education? It's important to get started early and plan ahead to maximize your savings. If you have questions, call our office at (703) 669-3660 or email us at clientservices@h4fs.com.
