



3 Important College Funding Questions to Answer During a Divorce

Divorcing parents need to discuss who will take ownership of accounts and what the tax implications will be.

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Whoever becomes the sole owner of the college savings plan will be the only person who can make decisions regarding the use of account funds. (Getty Images)

In ideal situations, parents begin saving for their child's [college](#) education shortly after birth, leveraging their combined incomes to create a united front against ever-increasing tuition hikes.

But even though divorces have been on the decline for decades, a significant percentage of marriages in the U.S. will fail. And in those cases, what was once a collective [college savings effort](#) can quickly turn bitter.

That, not to say that co-saving, like co-parenting, isn't possible after divorce. But it will take work and discussion of a few key points.

[Learn [four steps to take before opening a 529 college savings plan.](#)]

1. Who will "own" the 529 plan? If divorcing parents jointly opened a tax-advantaged [529 savings account](#) to save for their child, college expenses, they will have to decide which parent will assume individual control over the account following the breakup, or find another option, like [freezing or splitting the account](#).

If one parent becomes the sole owner, he or she will be the only person who can make decisions regarding the use of account funds, so it is important that parents come to a mutual agreement.

Certified financial planner Joe Orsolini of College Aid Planners in Glen Ellyn, Illinois, recommends that ownership always go to the noncustodial parent.

"In divorce situations, 529 assets are important, as typically one parent, usually the mom, has lower income, which sets up the family to qualify for more financial aid, he says. "The noncustodial parent should own the 529 because the noncustodial parent's assets and income are not included on the FAFSA. If the custodial parent

owns the 529, then the value of the 529 will be included on the FAFSA, and this is especially important as the FAFSA asset protection allowance drops significantly next year."

That drop means families will be able to subtract less of their assets held in savings and investments from their net worth, potentially decreasing a student's financial aid eligibility.

After a divorce, only one parent can be in control of the plan. The parent who does not end up owning the account should be designated as an authorized user, says Robin Graine, a certified divorce mediator with the Supreme Court of Virginia. That parent "is able to see what is going on in the account, but not able to move money around."

That parent should also be designated as the successor owner, in case the parent who owns the account dies, she says.

[Find out more about [how colleges consider 529 plans in need-based financial aid.](#)]

2. Who will claim the child for tax purposes? In addition to [tax advantages](#) from contributing to 529 plans, there are federal tax deductions available to the parent who claims the child as a dependent on their yearly taxes.

"Divorcing parents must determine who will claim the child for purposes of the IRS's dependent exemption, assuming the child is a full-time student as per his or her college's definition of full time," says Graine, "Note that the parent who claims the college student as deduction is also the parent who is eligible for any college credits that the IRS is giving out that year."

Graine, has dealt extensively with the issue of college savings during divorce, and she advises that parents closely examine their full financial picture before making tax decisions, so that no benefits are lost.

"Sometimes, the higher earning spouse has been designated to be the parent who is permitted to claim the adult child as a dependent on his or her taxes, per the divorce's property settlement agreement," says Graine, "However, if that parent makes a high salary, approximately \$180,000 per year or more for a married couple, there are no IRS credits available to that parent."

3. Who will have custody of the child? Custody is often a contentious matter during divorces, and not just when deciding who will be primarily responsible for the child, day-to-day care. The decision also has implications for the child's [financial aid](#) picture when he or she reaches college age.

On the [FAFSA](#), or Free Application for Federal Student Aid, it is the custodial parent, finances that are used to determine financial aid eligibility unless the noncustodial parent still resides in the same household. Additionally, if the custodial parent remarries, the new spouse's finances will be considered also.

Deciding which parent retains full custody can obviously have a significant impact on financial aid, but Steven Sirot, co-founder of the Roseland, New Jersey-based College Benefits Research Group, notes that some universities don't stop at the FAFSA when determining aid eligibility.

[Discover [five myths about parent information on the FAFSA.](#)]

"Over one-third of all colleges ask for additional financial aid forms, which do include the noncustodial parent's financial information," he says "Therefore, if both the custodial and the noncustodial parent should get remarried to other people, potentially there can be four adults whose assets and income will be considered available to pay for that student's tuition."

Sirot's company recently worked with a student whose custodial parent earned \$50,000 per year, while the noncustodial parent earned more than \$350,000. "In this case, financial aid eligibility would be almost zero if both parents are considered, but almost full need would be granted if only the custodial parent was considered," says Sirot.