Q. My wife and I have money saved for our daughter's college both in 529 plans and in regular Certificates of Deposit (CDs). Which money should we use first, and what can it mean for financial aid?

— Dad

A. Great question, Dad.

Money accumulated in a 529 plan can impact federal financial aid eligibility, but quite a bit less than prior to 2010, when the rules were changed, said Marnie Aznar, a certified financial planner with Aznar Financial in Morris Plains.

The amount of money each family is expected to pay based on their financial circumstances is called the **Expected Family Contribution, or EFC.** **(https://fafsa.ed.gov/help/fftoc01g.htm)** This takes into account income and assets of both the student and the parents, unless the student is considered to be independent, she said.

The formula counts 20 percent of a student's assets and 50 percent of her income, and from 2.6 percent to 5.6 percent of parent assets and 22 percent to 47 percent of a parent's income.

You didn't say who is the owner of the 529 or the CDs, and that's an important distinction.

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"Once you have taken a tax-free distribution from the 529 plan to cover the cost of qualified higher education expenses, this tax-free distribution used to pay this year's college expenses is not part of the base year income that would reduce next year's financial aid eligibility," Aznar said.

This applies to the federal financial aid calculations which are different from the "institutional methodology" that some colleges will use, she said.

As far as which assets to tap first, you want to consider the CDs first, or separately, because of how those funds could impact tax credit, said James Marchesi. a certified financial planner with Mill Ridge Wealth Management in Chester.

"If a family spends at least $4,000 on college expenses, **The American Opportunity Tax Credit (http://www.irs.gov/uac/American-Opportunity-Tax-Credit:-Questions-and-Answers)** amounts to potentially $2,500 off your taxes, though income phase-outs for the credit start at joint filing households earning more than $160,000," he said.

But of course, there's a catch. You can't use the same higher education expenses to qualify for both a tax-free distribution from a 529 account and for the Opportunity Tax Credit. So, he said, it would be cleaner to use the CDs first, then the 529 accounts.

The good news, he said, is that if you have two kids in college, you can claim up to $5,000 in credits, if done correctly.

As far as determining potential aid, the rule of thumb is that the less income and assets a student has, the better for the Expected Family Contribution, Marchesi said.

A few years ago, the government made it easier, counting student-owned and UGMA/UTMA-owned 529 accounts to be reported as parental assets, assuming the student files the **FAFSA (https://fafsa.ed.gov/)** as a dependent and has to include parental assets and income.

This treatment is beneficial because the parent assets are counted at a lower rate than the student assets, he said.