

529 plans: Saving for college is also good for your estate plan

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A 529 plan is a tax-advantaged and flexible education-savings tool. In addition to generous contribution limits and tax-free withdrawals for college expenses, these plans provide unique estate planning benefits for parents and grandparents.

Advantages

Even though you can change beneficiaries or get your money back, 529 plan contributions are considered “completed gifts” for federal gift and generation-skipping transfer (“GST”) tax purposes. As such, they’re eligible for the annual exclusion, which allows you to make gifts of up to \$14,000 per year (currently in 2016) to any number of recipients, without triggering gift or GST taxes and without using any of your lifetime exemption amounts.

Even better, 529 plans allow you to “bunch” five years’ worth of annual exclusions into a single year. Once you’ve taken advantage of this option, however, you won’t be able to make additional annual exclusion gifts to the beneficiaries until year six. If you die during this period, a portion of your contributions will be included in your taxable estate.

Disadvantages

529 plans accept only cash contributions. Furthermore, their administrative fees may be higher than those of other investment vehicles. Moreover, unlike many such vehicles, your investment choices are usually limited to the plan’s pre-established portfolios.

If withdrawals aren’t used for the beneficiary’s qualified education expenses, the earnings portion is subject to federal income taxes (at the recipient’s tax rate) plus a 10% penalty and, in some cases, state income taxes.

An attractive savings vehicle

529 plans offer a powerful combination of income tax savings and estate planning benefits. If college expenses are in your family’s future, contact us for additional information.

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