Direct tuition payments benefit your grandchild and your estate plan

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Grandparents often want to play a role in financing their grandchildren's education. If you're one of them, it's important to consider the impact that different financing options will have on your estate plan.

Make direct tuition payments

A simple but effective technique is to make tuition payments on behalf of your grandchild. So long as you make the payments *directly* to the educational institution, they avoid gift and generation-skipping transfer ("GST") taxes without using up any of your $5.49 million gift or GST tax exemption or $14,000 gift tax annual exclusion.

This technique is available only for tuition, not for other expenses, such as room and board, fees, books, and equipment. Accordingly, it may be desirable to combine it with other techniques.

Is a HEET an option?

Another disadvantage of direct payments is that, if you wait until the student has tuition bills to pay, there's a risk that you'll die before the funds are removed from your estate. Other techniques allow you to set aside funds for future education expenses, shielding those funds from estate taxes. A tool that's particularly attractive for grandparents is the health and education exclusion trust ("HEET").

A HEET is a "dynasty" trust designed to make direct payments of tuition (and, if you desire, medical expenses) on behalf of its beneficiaries. You can use your annual exclusions and lifetime exemption to make gift-tax-free contributions. Contributed assets are removed from your estate.

Most significant, a properly designed HEET allows you to avoid GST tax without using up any of your GST tax exemption. A trust can trigger GST taxes in two ways: (1) a taxable distribution to your grandchild or another "skip person" (e.g., a person more than one generation below you), or (2) a taxable termination, in which all nonskip trust interests terminate and only skip interests remain.

A HEET avoids taxable distributions by making direct payments to educational or health care organizations. In addition, it avoids taxable terminations by granting a significant interest (usually 10% or more) to a charity, which ensures that there's always at least one nonskip interest.

Explore all of your options

It's possible that gift, estate and GST taxes could be repealed later this year. Yet, even if this happens, as long as funding your grandchild's education is an important goal of yours, implementing one or both of these strategies likely won't have any negative impact. Doing so can be beneficial if these taxes aren't repealed or if they return in the future. If you'd like to learn more about your options to help fund your grandchild's education expenses, please contact us.

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