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The Savvy Investor

529 Plans as an Estate-Planning Tool

Overview

Money in a 529 account grows without any taxes and withdrawals are tax free when used for education.

An unintended benefit of the 529 plans is their tremendous estate-planning capabilities. It allows grandparents (and anyone else) to pass money on to grandchildren and at the same time lower both their own taxable income and their estate taxes.

With a 529 plan, investors can remove assets from their estate and put the money in a beneficiaries' name toward tax-deferred growth, while retaining control of the account. Families can create funds that go on for generations. You don't get that benefit anywhere else. Any other mechanism to move assets out of the estate require that it be irrevocable.

Advantages

Here are some of the key estate-planning benefits families can derive form the 529 plan:

- **Large Contributions**

  The amount you can put into a plan are substantial – more than $200,000 per beneficiary in most states. It's also possible to invest for multiple beneficiaries.

- **Retain Control**

  Once money is contributed to a 529 plan, it isn't considered part of the donor's estate. But unlike custodial accounts, which turn over the ownership to the child when the child reaches 18 or 21, 529 plan donors retain control. This is especially important to many grandparents who don't want to see assets splurged on anything other than college-related expenses. This is a great way to gift money and retain control, but not have the money wasted.

- **Flexibility**

  Donors can change beneficiaries, and take money out for non-educational expenses, subject to a 10% penalty on the earnings. For example, due to the 529 plans' revocable nature, assets may be applied toward nursing home expenses (subject to taxes and the 10% penalty) if a grandparent needs to do so.

- **No Expiration Date**

  There is no time limit on the life of the account. It can stay open for as long as the giver has a beneficiary named. You can change beneficiaries to other family members. So, theoretically, it can stay open for many generations.

- **Tax Breaks**

  Money in the account grows completely tax-free, and there are no taxes when the money is withdrawn and used for higher education expenses.

- **Accelerated Giving**

  Outside of a 529 plan contribution, individuals can contribute up to $14,000 a person, or $28,000 for a married couple, without incurring gift taxes.

  With a 529 plan, donors can give five years of this $14,000 gift-tax exemption in one year. That means an individual can contribute as much as $70,000 in a single year, without using up any part of their unified tax credit. Married grandparents can put in up to $140,000 for *each* grandchild, or beneficiary. Thus, you get the tax benefits of being able to give away $70,000 in a single year, not just $14,000.

More Information

For more information on using the 529 Plan as and estate planning tool, please contact us.