

Grandparent-Funded 529 Plans

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With the cost of college continuing to rise at a rapid pace, many grandparents want to help their grandchildren with the cost of higher education. The use of a 529 plan not only allows grandparents the satisfaction of helping their grandchildren through college, but there are also estate and gift tax advantages.

In New York, contributions to a 529 plan grow deferred from federal and state income taxes. In addition, the account owner does not pay federal or state income taxes on the money used to pay *qualified higher-education expenses*.

529 plans can support a long-term gifting strategy to reduce one's taxable estate. For example, \$14,000 (\$28,000 if married filing jointly) can be contributed annually to each grandchild's 529 plan without triggering federal gift tax. These annual gifts can be made to remove assets from your taxable estate and to pass them into the plan free of federal gift tax. New York permits a special election, which allows you to accelerate your gifting schedule and make five years' worth of gifts in one year. A lump sum contribution of \$70,000 (\$140,000 for married couple), is spread out over five years, provided you do not make any other gifts to the same beneficiary over that five-year period.

Although the assets are no longer in your taxable estate, a unique advantage of the 529 plans is that they permit the account owner to maintain control over the assets. You can decide how the assets are invested, when the assets are withdrawn and for what purpose. Furthermore, if necessary, you can change the beneficiary.

When deciding on a plan, it's important to review any costs and fees associated with the plan. In addition, you should consult with your estate planning attorney or other professional advisor before any decisions are made that could impact your tax liability.