



Saving for college or other education needs is a common gifting goal for many of our clients. Our Financial Planning Team can provide a concise report to help guide education funding goals for children or grandchildren.

Important variables

The effect of inflation on the cost of education is a growing concern. Our report will incorporate this variable as well as projected compounding earnings of the account.

529 plans

529 plans are a common vehicle used to fund education due to certain tax benefits associated with these plans. Earnings grow tax-free and are not taxed at the federal level if the proceeds are used to pay for eligible education costs. Many states offer full or partial state tax deductions for contributions to a 529 plan. Previously, 529 plans were limited to college expenses; however, as of 2018, tuition costs of elementary, secondary, trade and vocational schools are eligible expenses. 529 plans limit elementary and secondary expenses to \$10,000 of tuition.¹

Contributions and the gift tax

You can contribute up to \$15,000 a year per person per child without gift tax consequences. 529 plan accounts do offer the ability of an account to be “super funded” with contributions of \$75,000 per person. This utilizes your federal gift tax exclusion for the following five years for the beneficiary of the 529 plan.

What happens if the beneficiary does not use all the 529 monies?

Any money not used for education expenses will not receive the tax-free withdrawal benefit that 529 plans provide and could be subject to a 10% penalty on earnings. However, a 529 plan is transferrable to an eligible family member of the beneficiary. Additionally, if the beneficiary receives scholarships, you can withdrawal the scholarship amount from the 529 plan without incurring the 10% penalty on earnings.

¹Tax Benefits for Education Publication 927 <https://www.irs.gov/pub/irs-pdf/p970.pdf>

DISCLOSURES:

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