

Consider Gifting to a 529 Education Savings Plan



National 529 Plan Awareness Day falls annually on 5/29. This day celebrates the importance of preparing for future education expenses and the advantages of 529 Savings Plans. While there are several ways to save for a loved one's education, 529 savings plans can be an attractive choice.

What's a 529 Savings Plan?

A 529 savings plan is an education savings plan sponsored by a state that is designed to provide tax-advantaged savings for future education costs, specifically for K-12 tuition expenses at public, private and religious schools (up to \$10,000 per year) and a variety of qualified expenses at colleges, universities or other post-secondary education institutions. Named after Section 529 of the Internal Revenue Code which created these types

of savings plans, each state determines the lifetime maximum amount that can be accumulated per student and the investments available for their plan, but the money saved in a state's 529 savings plan does not have to be used for schools in that state. Keep in mind if you invest in your state's plan, you may also enjoy state tax benefits that include a state tax deduction or credit for contributions as well as state-tax-free withdrawals.

The two main benefits of a 529 savings plan are tax-deferral on your earnings and tax-free withdrawals for qualified education expenses. Without the burden of taxes, your money goes farther. The earlier you start saving, the greater the benefit from the power of compounded returns. Any withdrawals for purposes other than education will mean any earnings will be subject to federal income tax, and possibly a 10% federal tax penalty.

Make a Gift

A unique aspect available for 529 savings plans is that you can accelerate funding them with a large gift. Federal law currently allows anyone to make a gift to anyone else up to \$15,000 per person, per year, without the imposition of a gift tax. For 529 savings plans, there is a special rule that allows you

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to frontload five years of gifts in one year — this means you can gift \$75,000 into a 529 savings plan (\$150,000 if you are married) without any gift tax consequences. Think about what those dollars could become in a tax-free 529 savings plan over many years of growth before a loved one needs it. Consider, though, that if you make a fully frontloaded gift, you cannot make any other taxable gifts to that loved one during the five-year period.

Consider whether a gift to a 529 education savings plan for a loved one is right for you. If you have the means, consider frontloading that gift to get the tax-free growth started as soon as possible. To get a plan started, or if you have questions about 529 savings plans, contact your Benjamin F. Edwards & Co. financial advisor.

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