

Grandma and the 529 Plan

OR

How the 529 Plan can be an effective Estate Planning Tool and maintain a sense of financial assurance to Seniors.

Grandma Jones had done alright for herself. Raised 6 children, all on their own and doing reasonably well. She has 10 grandchildren. She also has an estate with a value of \$5.45M in 2016. Grandma's dilemma: Her Tax Professional recommends she begins to "gift" her estate, within limits, to reduce her estate for Federal Income Tax purposes. Grandma is concerned with the volatility of the stock market that she may need her money to maintain her lifestyle, either in her own home or in a care facility of her choice. BUT, Grandma doesn't like the idea of her estate paying estate tax, so she is willing to listen to her Tax Professional!

Her Tax Professional explains:

- **Anyone can make contributions to a 529 Plan, helping to pay for education of, in Grandma's case, her grandchildren.**
- **The current annual gift limit is \$14,000 (\$28,000 for joint filers). However, under a special rule, 529 plan investors can contribute five times the annual gift amount all at once - \$70,000 (\$140,000 for joint filers) without incurring gift tax.**
- **The contributions and any future earnings are removed from the donors' gross estate. Contributions are deemed to be "completed gifts".**
- **This can enable owners to enjoy an immediate estate reduction. However, if the owner dies during the five-year period, the contributions are counted in his or her estate on a pro-rata basis, according to the number of remaining years, including the year in which the donor dies.**
- **Grandma continues as the owner of the 529 plan and Grandma's financial position is disregarded when the financial position of a student or their family is evaluated for student aid.**
- **AND – Grandma maintains control of the assets – taking back the money if they choose with the only tax consequence – paying taxes on the earnings and possibly a 10% tax penalty.**

Even Grandma can do the math: 10 Grandchildren @ \$70,000 each is \$700,000, eliminating estate tax. Her Tax Professional smiles when he/she tells her that all she has to do is live the next five years.

The moral of this story: Always listen to your Tax Professional!