A College Savings Plan Is Also Great for Estate Planning Across Generations

With careful planning, families can deploy various vehicles to pay for college education. One of the best candidates is a 529 plan, which can be an especially efficient vehicle for gift-giving to multiple generations with maximal tax efficiency.

Estate planning and the 529. Every dollar contributed to a 529 plan may be excluded from the contributor's taxable estate. This is what makes the 529 plan unique: The contributor still maintains control over these accounts even though it is not part of their estate. Contributors can make annual contributions – up to $14,000 per individual – or accelerate five years' worth of gifting and contribute up to $70,000 at one time without incurring gift tax provided these are the only gifts the donor has made to this donee during the year. While this acceleration does utilize the next five years' worth of annual gifting, the money will have a greater time horizon for tax-free investment growth.

Tax advantages when a grandparent contributes. A grandparent can make tax-free tuition payments directly to a college for the benefit of a grandchild. This strategy enables them to give the gift of education without any corresponding gift tax cost, thus softening the cash flow burden for both the parents and the grandchild.

Tax credit eligibility. Generally, New York State deems the tuition payment as paid by the student for purposes of taking a New York State itemized deduction or 4% tax credit. As such, the student or the parent -- if the student is a dependent -- may claim this benefit, even though the 529 plan was funded by the grandparent or another party.

For more insight on this topic, consult Anchin's Guide to Education Tax Savings. Rules vary from state to state; please be sure to discuss the details with an advisor or your Anchin relationship partner.

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