# Acing Your Children's College Tuition

## The 529 Plan: College Savings 101

Today, there are many ways to manage both single and multigenerational opportunities.

The 529 plan is one of them. It is a tax-advantage higher education savings plan generally operated by a state or an educational institution. A popular option among parents who like to think ahead, it is designed to aide families in saving for the looming cost of college.

The 529 Plan not only features tax-free growth and withdrawals, but it offers multigenerational planning as well. By maximizing contributions to the plan without subjecting oneself to additional taxes or penalties, one can capitalize on benefits offered under the 529 Plan.

### 2013 Rules and Regulations:

- **A single person can contribute up to $14,000/yr. to each child's 529 Plan ($28,000/yr. for married couples).**

- **Under a special 529 Plan rule, parents can accelerate up to 5 years of contributions ($70,000 for individuals, $140,000 for married couples) into a single calendar year.**

  - **For example, assume one parent or grandparent put $50,000 into a 529 Plan in 2010. In 2013, he or she wants to add to that total. Under the current rules, only $20,000 can be added in 2013, and in 2015 (or, exactly five years later) the parent or grandparent is eligible to make the maximum contribution of $70,000 once more. Or, they can choose to contribute less than that amount each year. They just can't contribute more than the limit.**

  - **Contributions can be made by anyone, related or not, as long as the balance stays under $350,000 per child (plan specific). If the balance falls below $350,000, additional contributions can be made.**

- **As a safeguard, withdrawals from a 529 Plan for anything other than educational purposes are subject to both a Federal income tax and 10% penalty on investment earnings. However, if the student receives a scholarship, the amount of the scholarship can be withdrawn from the account and investment earnings are subject to Federal income tax.**

## Multigenerational Planning: Graduate-Level Savings

Now, what happens in the event that there's a balance in your 529 Plan even after your tuition has been paid?
With smart decision-making and favorable regulations, a parent's 529 Plan can play an important role in a grandchild's education planning as well. Within the 529 Plan, a parent, or the owner of the account, can change the beneficiary at any point

in time. In order for this change not to be considered a gift, the change can be made to another sibling or back to the owner/parent. At present, the IRS does not consider this as two gifts which means you will <u>not</u> be subject to an additional Gift Tax.

For example, if a parent or grandparent has a 529 Plan with the maximum amount of $350,000, of which the child uses only $200,000 for tuition, over a period of time contributions can be made until the balance is once again $350,000. At this point, several options exist (please note options are plan-specific):

- Change the beneficiary to another child or sibling
- Name a parent (himself or herself) as the owner and beneficiary of the 529 Plan
- Once the son or daughter is over 18, he or she can become the owner and beneficiary of the 529 Plan
- If the son or daughter has a child of their own, the parent or grandparent can remain the owner of the 529 Plan and name the grandchild as the beneficiary
- In this instance, the change in the beneficiary creates a gift from the grandparent to the grandchild. By allowing a 5-year accelerated gift of $70,000 per spouse into the 529 Plan, the grandparent has created a generation skipping event (taxable gift) of $105,000. The grandparent's allowable gift portion is $175,000 ($350,000 between two spouses).

Multigenerational Planning – build wealth, not just from year to year, but from generation to generation.

- In other words, $175,000 gifted - $70,000 allowed= $105,000 taxable portion. Therefore, the grandparent's lifetime exclusion will now be reduced to $5,145,000.
- The son can be named as the owner of the 529 Plan and his own child as the beneficiary

In this instance, the grandparent has created a gift from the son or daughter to his grandchild. The son can now use his $70,000 5-year accelerated gift option, which will be tax-free. However, the remaining $280,000 balance will be subject to the Gift Tax and count against the son or daughter's lifetime exclusion.

Note that the last two options trigger what is known as a "generation skipping" event. This means that the lifetime exclusion amount (currently $5,250,000) can be reduced by the amount of the gift.

There are many advantages to the 529 Plans, while the value of the account is removed from your taxable estate, one can retain full control over the account. No other plan offers this combination of estate tax reduction and flexibility.

Contact *Riverview Capital Advisers* if you would like to discuss the specifics of your personal situation. We are always working to help you build wealth, not just from year to year, but from generation to generation.

*Contributors: Paula Pienkowska is the Director of the Wealth Advisory Group at Riverview Capital Advisers. Alan Arcadipane is a Business Analyst of the Business Advisory Group at Riverview Capital Advisers. Melysa Latham is a member of the Business Advisory Group at Riverview Capital Advisers.*