COLUMBIA THREADNEEDLE INVESTMENTS

Gifting strategies with 529 plans

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Prepare for future college costs, and benefit from flexible gift and estate planning strategies — all at the same time.

529 plans offer significant benefits for beneficiaries because they can help fund future college expenses. But they also benefit account owners because they provide opportunities for gifting and estate planning. In this respect, 529 plans have a unique advantage: The account owner maintains control of the account assets, even though contributions are considered completed gifts and are excluded from the account owner's taxable estate.

Here are two advanced gifting strategies with a 529 plan:

- **Annual gifting** allows an annual gift tax exclusion of up to $14,000 per recipient for individuals and $28,000 for married couples. In 2018, these limits will increase to $15,000 and $30,000, respectively.
- **Accelerated gifting** allows a one-time gift to a 529 plan of up to $70,000 per recipient for individuals or $140,000 for married couples, to be contributed and prorated over five years — without incurring federal gift tax or using the donor's lifetime gift tax exclusion. In 2018, these limits will increase to $75,000 and $150,000, respectively.

With a 529 plan, you can give a gift but keep control. Want to learn more? Read through this example to see how 529 gifting can be a powerful tool for both college savings and estate planning goals:

FUTURE SCHOLAR
529 COLLEGE SAVINGS PLAN

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GIFTING STRATEGIES WITH 529 PLANS

The gift that keeps on giving

Parents and relatives can benefit from two advanced gifting strategies available only with 529 plans: annual gifting and accelerated gifting.

- Annual gifting allows an annual gift tax exclusion of up to $14,000 per recipient for individuals and $28,000 for married couples.
- Accelerated gifting allows a one-time gift to a 529 plan of up to $70,000 per recipient for individuals or $140,000 for married couples, to be contributed and prorated over five years — without incurring federal gift tax or using the donor's lifetime gift tax exclusion.

With a 529 plan, the account owner also maintains control of the account assets, even though contributions are considered completed gifts and are excluded from the account owner's taxable estate. Please note that the donor must survive to the fifth calendar year after the contribution, or a prorated amount will be included in their estate.

Gifting 101

Meet the Johnston family. They hope their only child, Matt, will attend university when he graduates high school. They made modest contributions to a 529 plan for him in prior years but know they need to do more to meet their savings goal to ensure that Matt has enough resources to choose any school that accepts him. At the end of 2017, Mr. Johnston earns a large bonus, and he and his wife want to contribute $28,000 of it to Matt. In a 529 plan, they can do this without any gift tax liability.

Year	Total gift = $28,000	Annual gift tax exclusion
2017	Gifting year	$28,000

Advanced gifting

Matt's grandparents are comfortably retired and in a position to make meaningful contributions to a college savings plan for their grandson. To maximize the five-year forward gifting provision and the special gift tax exclusions available with 529 plans, they contribute $28,000 at the end of 2017, and in 2018 they contribute $140,000 as a gift and elect to prorate over five years. Taking these steps effectively removes $168,000 from their combined taxable estate without incurring any federal gift tax or using their lifetime gift tax exclusions.

Year	Grandparents' gift = $168,000		Year-by-year gift tax exclusion
2017		$28,000	$28,000
2018	Gifting year	$140,000	$28,000
2019	Gifting year +1		$28,000
2020	Gifting year +2		$28,000
2021	Gifting year +3		$28,000
2022	Gifting year +4		$28,000

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Withdrawal of earnings not used for qualified higher education expenses will be subject to federal and possibly state and local income tax and may be subject to an additional 10% federal penalty tax.

Total contributions to each 529 plan cannot exceed the amount necessary to provide for the beneficiary's qualified higher education expenses. Each plan generally establishes a contribution limitation.

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