

## Assisting Grandchildren with College Costs

Contributing to a Section 529 college savings program is a great way for grandparents to help their grandchildren pay for college. It is also a great way to remove assets from the grandparent's estate without paying estate tax. As an added feature, money in a 529 plan owned by a grandparent is not assessed by the federal financial aid formula when qualifying for student aid.

Grandparents, as well as other taxpayers, have a unique opportunity for gifting to Section 529 college savings plans by contributing up to \$65,000 at one time, which currently represents five years of gifts at \$13,000 per year. (\$13,000 is the annual gift tax exclusion amount for 2011.) A married couple who elects gift-splitting can contribute up to double that amount (\$130,000 in 2011) to a beneficiary's 529 Plan account(s) with no adverse federal gift tax consequences.

Example: Electing to spread a 529 Plan gift over five years.

In 2011, Linda contributes \$75,000 to a 529 Plan account for the benefit of her grandson, James. She makes no other gifts to James in 2011. Because the gift exceeds the \$13,000 annual gift tax exclusion, Linda elects to account for the gift ratably over five years beginning with 2011. Only \$65,000 (five times the current annual gift tax exclusion) is eligible for the election; therefore, Linda is treated as having made an excludible gift of \$13,000 in years 2011–2015, and a taxable gift of the remainder (\$10,000) in 2011.