Help you and your loved ones build their legacy

Accelerated gifting with 529 plans

Presented by

CollegeBound 529

Accelerated gifting

Accelerated gifting is a special provision of 529 plans that permits a contributor to combine five years of contributions (the current year plus four future years) in a single year. This allows a gift of up to $90,000 for an individual contributor or $180,000 for couples filing jointly (five times the current annual gifting limit per beneficiary). However, no additional gifts may be made until five years have passed.

Use CollegeBound 529 to save for college and save on estate taxes

Most investors know that a 529 plan is one of the best ways to save for a child's college expenses. But did you know a 529 plan is also one of the best ways to help reduce your estate tax burden?

In addition to the education savings benefits, 529 college savings plans have the potential to double as an important estate planning tool. Special rules that apply to 529 plans allow parents and grandparents to save for a child's higher education while simultaneously reducing their taxable estates. Best of all, the account owner always retains control of the assets, unlike most other estate-planning vehicles.

For tax planning purposes, please keep this in mind. If your contributions to a 529 plan for a child or grandchild, combined with all other gifts you may give to that child in any given year, exceed the $18,000 annual exclusion, you must file a Gift Tax Return (Form 709) and compute any gift tax and generation-skipping transfer tax.

Key considerations

When considering whether to use a 529 for estate planning, keep in mind the following key points:

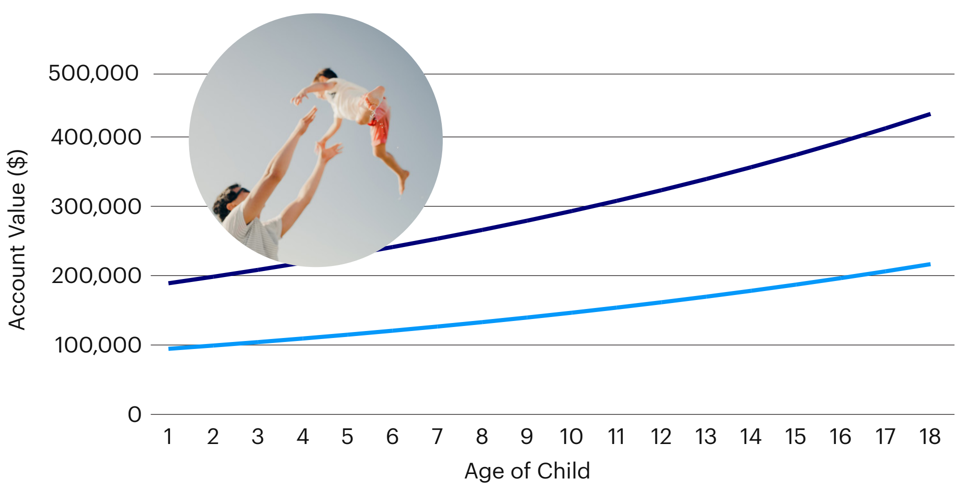
- An individual may contribute up to $18,000 a year ($36,000 for a married couple) per beneficiary without triggering the federal gift tax.[1]
- Special gift and estate tax treatment allow an individual to contribute up to $90,000 ($180,000 for a married couple) in one lump sum (per beneficiary) free of federal gift taxes (i.e., five times the annual gift tax exclusion), under a provision known as "accelerated gifting."
- For estate planning purposes, the Internal Revenue Service considers assets held in a 529 account as a completed gift and therefore treats them as the beneficiary's assets and NOT the account owner's.
- 529 plan contributions and investment earnings may be withdrawn federal income tax-free if the money is used for Qualified Higher Education Expenses (QHEE).[2]
- The 529 account owner maintains complete control over account assets and is allowed to make beneficiary changes or even discontinue the account and take the money back.[2]

Accelerated gifting — John's story

The moment John first saw his grandson, he decided to open a 529 college savings plan to help pay for his grandson's future higher education expenses. At the same time, John had just started estate planning and was looking for ways to remove assets from his estate and gain tax advantages. John chose to forward-fund his grandson's 529 plan and used accelerated gifting to contribute the maximum allowable five-year gift of $90,000. After 18 years and assuming a 5% annual rate of return, John's initial $90,000 investment could generate $216,596 for his grandson's college education. John also would have succeeded in reducing his taxable estate by $90,000.

If John's wife had joined him in making the same maximum contribution under the accelerated gifting provision, their combined $180,000 investment would have yielded $433,191 (based on a 5% annual return assumption) for their grandson's college education expenses while also reducing their taxable estate by $180,000.[3]

Making Five Years of Gifts in a Single Year[4]



■ **$433,191**
Assumed account value if both grandparents contribute $180K to a tax-advantaged savings account for college.

■ **$216,596**
Assumed account value if one grandparent contributes $90K to a tax-advantaged savings account for college.

A gift for them ... and you

- Small gifts can be just as important as big gifts. How many times have relatives and friends asked what to give a child for his or her birthday, graduation, or other special occasions? What better gift than an education?
- Mark a child's milestones and achievements by showing that you value education. Helping underwrite the high cost of higher education is much more valuable in the long run than giving the latest toys and games as gifts.
- Ugift makes gifting easier. This convenient, free-to-use service lets family and friends contribute to a child's CollegeBound 529 account.
- Starting with the 2023 Free Application for Federal Student Aid (FAFSA) application for the 2024-25 award year, students will no longer need to report withdrawals from a grandparent-owned (or any non-parent owned) 529 college savings plan. That means withdrawals from a grandparent-owned plan on their behalf won't impact the expected family contribution calculation or financial aid. Prior to 2023, withdrawals from a grandparent-owned 529 plan, could reduce financial aid eligibility by 50%.

To learn more about the potential benefits of using CollegeBound 529 as part of your estate planning strategy, talk to your financial professional about establishing and investing in a 529 education savings plan. Visit collegebound529.com or call 1-877-615-4116 for more information.

1. The gift-tax exclusion applies, provided the 529 account owner makes no other gifts to the beneficiary during a five-year period. Contributions between $18,000 and $90,000 ($36,000 and $180,000 for married couples filing jointly) made in one year may be prorated over a five-year period without subjecting the donor(s) to federal gift tax or reducing his/her federal unified estate and gift tax credit. If an individual contributes less than the $90,000 maximum ($180,000 for married couples filing jointly), additional contributions may be made without subjecting the donor to federal gift tax, up to a prorated level of $18,000 ($36,000 for married couples filing jointly) per year. Gift taxation may result if a contribution exceeds the available annual gift tax exclusion amount remaining for a given beneficiary in the year of contribution. If the account owner dies before the end of the five-year period, a prorated portion of contributions between $18,000 and $90,000 ($36,000 and $180,000 for married couples filing jointly) made in one year may be included in his or her estate for estate tax purposes. Please consult your tax and/or legal advisor for further guidance.
2. Earnings on non-qualified withdrawals may be subject to federal income tax and a 10% federal penalty tax, as well as state and local income taxes. Tax and other benefits are contingent on meeting other requirements and certain withdrawals are subject to federal, state, and local taxes.
3. If an account owner utilizes the special five-year lump sum exclusion and dies within five years of the funding date, the portion of the contribution allocable to the years remaining in the five-year period (beginning with the year after the account owner's death) would be included in the account owner's estate for federal estate tax purposes. Consult your tax advisor for more information.
4. This chart from Invesco, January 2024, is for illustrative purposes only. This hypothetical illustration assumes an initial investment and a second investment up to the maximum before gift tax penalties apply and a 5% annually compounding rate of return. The illustration does not represent the performance of any specific investment and does not reflect any plan fees or sales charges that may apply. If such fees or sales charges had been taken into account, returns would be lower.
5. Savingforcollege.com, "Compare Savings Options."

Before you invest, consider whether your or the beneficiary's home state offers any state tax or state other benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in that state's qualified tuition program.

For more information about CollegeBound 529, contact your financial professional, call 877-615-4116, or visit collegebound529.com to obtain a Program Description, which includes investment objectives, risks, charges, expenses, and other important information; read and consider it carefully before investing. Invesco Distributors, Inc. is the distributor of CollegeBound 529.