WA529
Washington Education Savings Plans

Four ways 529 plans benefit savers during estate and gift tax

Participation in state-sponsored 529 plans is one of many strategies financial advisors can recommend to savers during the estate and gift tax planning process. Not only can these plans help create a lasting legacy, ensuring a child avoids building education-related debt, but participating in 529 plans can reduce savers' overall tax burden.

1. **529 plans are more flexible than custodial accounts and trusts.**
   Assets in a 529 account are excluded from the federal taxable estate, but the account owner maintains complete control over them. If an unforeseen need arises, account owners can access the account—at any time, for any reason (taxes and penalties may apply). What's more, the beneficiary never gains ownership—at any age. Custodial accounts and trusts simply don't offer this flexibility.

2. **The beneficiary of a 529 plan can be changed.**
   Since account owners retain complete control over the account, they can change the beneficiary. The only restriction is that the new beneficiary must be a "family member" of the old beneficiary (as defined by the IRS; see IRS Publication 970 for more information). Account owners may voluntarily give up control by transferring account ownership to someone else, including the beneficiary.

3. **Clients can take advantage of the gift tax exclusion.**
   If your client's contributions, together with any other gifts to the student, do not exceed $19,000 per year ($38,000 for married couples making a proper election), no gift tax will be imposed for that year. Gifts of up to $95,000 can be made in a single year ($190,000 for married couples making a proper election) for a student, and clients may elect to apply the contribution against the annual exclusion equally over a five-year period. This allows them to move assets into tax-deferred investments and out of their estate more quickly.

   State law treatment of gift and estate taxes varies. GET accounts require either the account owner or student beneficiary to be a Washington resident at the time of opening the account. You can work with savers to identify which state 529 plan offers the most favorable state tax treatment and other benefits such as financial aid, scholarship funds, and protection from creditors.

4. **529 plans provide tax-advantaged growth and withdrawals when funds are used for qualified higher education expenses.**
   Contributions to 529 accounts are made post-tax. However, they grow free from federal income tax and withdrawals remain free from federal income tax when used to pay for qualified higher education expenses such as tuition, room and board, books, supplies, and computer equipment.

   If savers use 529 funds for non-qualified expenses, only the earnings portion may be subject to federal income tax and a 10% federal penalty tax. Contributions are made post-tax and, therefore, are not subject to taxation again. Savers should consult a tax advisor to determine how taxes may apply to their individual circumstances.

Offering clients information about participating in state-sponsored 529 plans during estate and gift tax planning shows a commitment to offering a breadth of services that work for their unique needs. Their participation in a 529 plan can help reduce their overall tax burden and set the next generation up for success.

More information

IRS Publication 970

GET Program Details Booklet

WA529 Invest Program Details Booklet