



## The Estate Planning Benefits of 529 Plans

Most people are aware that state sponsored college savings plans (529 Plans) offer a tax advantaged way to save for college. But did you know that these plans offer a valuable estate tax benefit as well? High net worth individuals subject to estate tax have very few options for removing assets from their gross estate without giving up control. However, making contributions to a child's or grandchild's 529 plan will do just that.

The tax benefits of 529 college savings plans were recently made permanent by the Pension Protection Act of 2006. These popular state sponsored programs typically enable parents to fund their children's college costs by contributing to a tax deferred account. When it comes time to distribute the funds to pay qualified college costs the earnings are largely tax exempt. These accounts may also be set up (or contributions made to existing accounts) for grandchildren, nieces, nephews, and others as well. Contributions are treated as gifts to the beneficiary and a person contributing to a 529 account can give up to \$12,000 annually without paying gift tax. In addition, there is a special election for 529 contributions which allows a lump sum of \$60,000 gift tax free, provided no other gifts are made for the current and next 4 years. Thus, a married couple could give \$120,000 in a lump-sum contribution to each child or grandchild every 5 years gift-tax free.

Sam and Sara are in their 40's with 3 young children ages 4, 7, 9. Sam's parents, John & Jane have a high net worth and will be subject to the estate tax which starts at 46%. Sam's parents open up three 529 plans for their grandchildren and fund each with \$120,000. This immediately removes \$360,000 from their estate (saving 46%), but John & Jane still own and control the funds. If a grandchild does not go to college, John & Jane can transfer the funds to another grandchild. If John & Jane ever need the money, they could take back the funds (and pay tax on the earnings plus a 10% penalty).

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Currently only estates over \$2 million are subject to estate tax. With proper estate planning, therefore, a married couple would need a net worth in excess of \$4 million before the 529 contributions would save taxes. Starting in 2009 the exemption increases to \$3.5 million per person, and in 2010 the estate tax is repealed for one year. Starting in 2011 (unless Congress changes the law) the estate tax threshold reverts to the earlier \$1 million per person. Thus, it is quite possible that joint estates in excess of only \$2 million could be subject to estate tax. Therefore,



clients with more modest estates might want to consider a 529 gift program to utilize the current \$12,000 gift tax exclusion or the 5 year lump sum gift of \$60,000 for their children or grandchildren.

If you would like to discuss this idea in more detail, contact your Vantage Relationship Manager.

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By investing in a 529 plan outside of the state in which you pay taxes, you may lose tax benefits offered by the state's plan. Withdrawals used for qualified expenses are federally tax-free. Tax treatment level may vary.

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