

Maximize tax-free gifts with 529 plans

Current gift tax rules expand opportunities to make federal tax-free contributions to a 529 plan.

529 plans carry a lot of well-known benefits for college savers, including tax-deferred growth on account assets and tax-free distributions for qualified expenses. But one of the most unique features is the different funding opportunities for people who want to contribute to 529 plans in a tax-efficient manner.

Contributions to 529 plans are considered “completed gifts” for gift and estate tax purposes, meaning that the gift amount is tax-free to both the donor and the recipient. The maximum completed gift limits are currently set at \$18,000 per individual and \$36,000 for married couples filing jointly. If a donor gives more than the current limits, the excess is considered a taxable gift and the donor may owe tax.

Forward gifting in 529 plans

The unique forward gifting feature for 529 plans allows the donor to fund significantly more in a single year than the limit cited above, without generating a tax event. Specifically, the donor can fund five years’ worth of the annual amount (up to \$90,000 for 2024, or \$180,000 if filing jointly) tax-free. But what if someone wants to contribute more than that? After all, many 529 plans have a maximum contribution limit of over \$575,000 per beneficiary.¹ Is it possible to contribute the maximum amount — in other words, to “max-fund” a 529 account through a one-time gift? The answer is yes.

Max-funding 529 plans with the unified tax credit

The Tax Cuts and Jobs Act (TCJA) significantly increased the estate and gift tax basic exclusion amount for 2018 through 2025, unless Congress acts. The basic exclusion amount for 2024 is \$13.61 million. To get the benefit of this exclusion in 2024, a credit of up to \$5.39 million is taken against any gift or estate tax liability.² This credit is known as the unified credit. The credit allows people to disburse gifts in certain circumstances, without having to pay gift taxes if the donation is above the \$18,000 per donee per year limit.

See your tax advisor to understand applicable rules for your state.

¹ Contribution limits vary by each individual state plan.

² Current limits for 2024 is \$5,389,800, expected to increase for 2025. Work with your tax advisor to confirm the applicable limit for any gift you intend to make.

To learn more about
college savings planning
with a 529 plan, contact
your financial advisor.

2024 annual gift tax exclusion: \$18,000 x 2 (spouses)	=	\$36,000
Plus, 529 unique forward gifting for 2025–2028: ³ (4 x \$18,000) x 2 (spouses)	=	+ \$144,000
Taxable gift reducing lifetime gift tax exclusion (using unified credit) ⁴ =		+ \$395,000

= One fully funded 529 account of \$575,000

For example, a couple seeking to max-fund a \$575,000 529 plan could fund five years' worth of annual tax-free gifts (\$180,000 as described above), and then use the unified credit to fund the additional \$395,000. That \$395,000 is effectively counted against what they would have been able to pass on to their heirs' estate tax-free.

In doing so, they would have positioned \$575,000 to grow tax-deferred, outside their estate, with no time limit for use and no required minimum distributions. They still own and control the assets but can use the assets tax-free for qualified expenses, or simply pass to their heirs (again, outside of their estate and probate process) as a legacy.⁵

Understanding the unified tax credit can help investors maximize tax-free contributions to 529 plans — and expand their opportunities. Investors interested in learning more about the tax implications of funding 529 plans for their family should reach out to their tax advisor, together with their financial advisor, to get started.

³ Four times the annual gift tax exclusion. A person who chooses to take full advantage of the five-year spread for 529 plans would not be able to give additional gifts to that person during the five-year return period without filing a gift tax return, unless the gift tax exclusion were increased.

⁴ This hypothetical example is provided for illustrative purposes only and assumes \$575,000 contribution limit on the 529 plan. A gift tax return must be filed to use the unified credit. Work with your tax advisor to confirm filing requirements.

⁵ Assets used for non-qualified expenses may be subject to penalty, as well as state and federal income taxes. Speak with your tax advisor for additional information.

To find out more, call **888.244.5674**
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