Winter News

EDUCATION PLANNING

Providing for the education of a child or grandchild may be one of your estate planning objectives. There are a variety of ways to achieve this goal.

For example, the IRS provides a gift tax exclusion for any payments made directly to any educational institution on behalf of any individual. This exclusion is separate and apart from your $12,000 ($13,000 in 2009) annual exclusion or your $1,000,000 gift tax credit.

To save for the future education of younger generations, one can establish Uniform Gifts/ Transfers to Minors Accounts. These accounts, however, must be distributed when the beneficiary attains a certain age and, thereafter, can be used by the beneficiary for any purpose.

Alternatively, one can establish trusts that provide for a beneficiary's needs, such as education. Recently the IRS has provided us with additional savings tools to assist in education planning. Up to $2,000 can be deposited annually into an Education IRA, free from federal gift taxation.

Contributed funds are not deductible to the donor for income tax purposes. However, growth within the IRA is not subject to current taxation. The donor is free to direct the investment of the IRA assets. Withdrawals from the IRA are tax-free if used for educational expenses, which may include elementary and secondary school costs as well as higher education costs. If the beneficiary of the IRA does not utilize all of the funds by age 30, the IRA can be rolled over into a new Education IRA for a family member of the beneficiary

In contrast, a Section 529 Savings Plan permits one to deposit substantial sums of cash into an account established solely to meet a beneficiary's higher education expenses. The donor has no ability to direct the investments other than to choose among offered investment styles. Plan funds are not guaranteed.

Maximum contribution limits range from $85,000 to $150,000. Current withdrawals from a savings plan are not subject to income taxation if used for qualified higher educations expenses. Contributions to a savings plan are subject to gift tax, although a donor may use his or her annual exclusions or gift tax credit to shelter contributions from taxation.

In fact, contributors may pre-fund the account with five years worth of annual exclusions. Thus, any individual may contribute up to $60,000 to a savings plan without paying gift taxes. While this curtails the individual's ability to make additional annual exclusions gifts to the beneficiary during the next five years, the ability to invest a substantial bulk amount presents a great advantage. Any unused balance of any 529 Plan can be rolled over to benefit other family members at any time.

These education planning options can provide substantial assistance to a child, grandchild or other family member.

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