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ESTATE PLANNING

529 plan can offer huge tax benefits when paying for kids' college expenses

BY HEATHER DRAPER
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College savings 529 plans don't always come up in estate-planning discussions.

But 529s offer investors a unique estate-planning tool, experts say, because the value of the 529 account isn't part of the holder's taxable estate, yet the account holder maintains full control over the funds in it.

"You can really think of them as a 401(k) for education," said Chris Haeck, sales director at CollegeInvest in Denver. "529s are a way to save money that grows tax-deferred, as long as it's used for college, room and board, books or other qualified expenses."

The 529 plan offer parents and grandparents a way to shelter their money, while still controlling it, he said. Plus distributions to pay for beneficiaries' college costs come out tax-free.

Haeck said investors can gift up to $13,000 a year tax-free under current gift tax laws, and 529s allow them to forward gifts for up to five years.

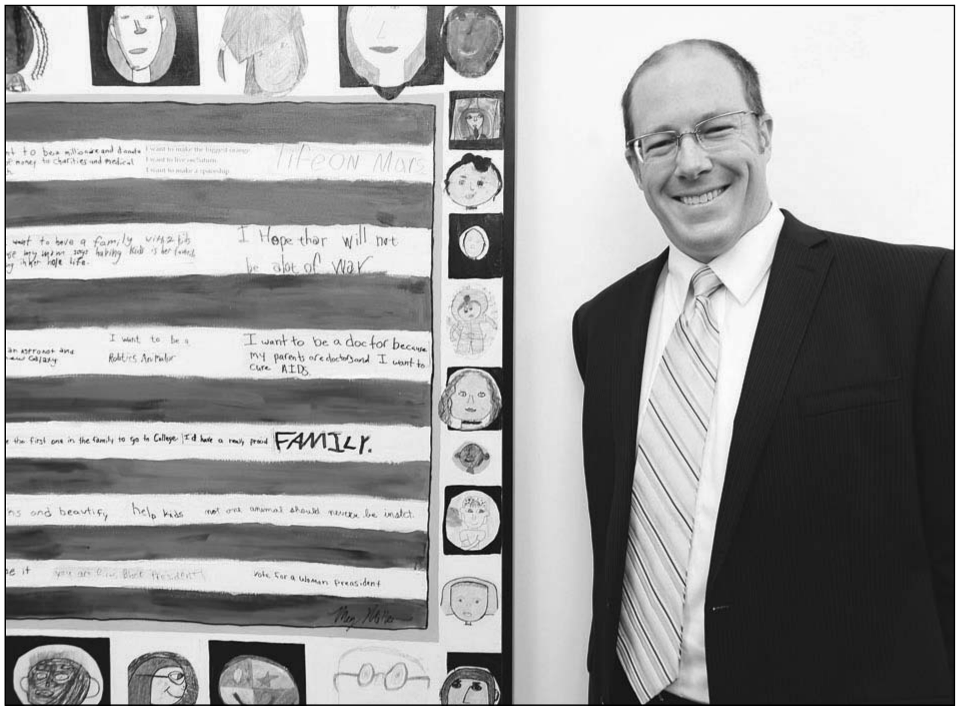
"Married grandparents could gift up to $26,000 a year tax-free," he said. "With 529 code allowing for five years of forward-gifting, that couple could transfer $130,000 to a beneficiary out of their estate without incurring any gift tax."

The forward-gifting option allows investors to get money out of their taxable estates more quickly, because they can gift all five years' worth in one year.

Haeck offered a "real-world" example of a grandparent with 21 grandchildren who funded their 529s with the maximum amount allowed.

"They took $2.7 million out of their taxable estate and put it in all of the names of their grandchildren. And they still controlled the money," he said.

Because 529 account holders still control their money, they can "rob" their accounts for nonqualified expenses at any time by paying a penalty, which is a 10 percent federal tax on the gains made in the account.



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Chris Haeck, CollegeInvest sales director, says married grandparents could transfer $130,000 to a beneficiary for college expenses without owing any gift tax, under the 529 rules.

"If you got a decent rate of return, with the compounding effects of it, then net-net you don't lose," said Joseph Clemens, president, Wisdom Wealth Strategies in Denver. "The tax deferral can easily offset the penalty, because the taxes are only on the gains."

Clemens said he's an "advocate" of 529 plans for Colorado residents, because there's no account fee and investors get a state income tax deduction of 4.63 percent for doing it.

And if you open a 529 plan in Colorado, the beneficiary doesn't have to attend a college in the state. "That's a common misconception," Clemens said. "They're not going to reclaim your tax break if your grandchild goes to school out of state."

Plus it's an investment vehicle that works for people at almost all income levels. "You could invest just $25 a month," he said. "I think most people can cut out a coffee or two to save for college."

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>
> **Chris Haeck**
> sales director, CollegeInvest

But he warned that 529s aren't for everybody.

"Sometimes I'll tell clients, 'You aren't saving enough for retirement yet, so why are talking to me about saving for college?'" Clemens said. "It's an emotional issue, because almost everyone wants their kids to go to college. But you can get loans for college; you can't get loans for retirement."