Education Planning

Gifting 529 Savings Plan Contributions to Your Grandchildren

If you have grandchildren, you may want to help them with the rising costs of a college education. The College Board reports the average 2023-2024 cost for tuition, fees, room and board was $24,030 for in-state residents and $41,920 for out-of-state residents attending a four-year public university; an increase of 3.2% over the prior academic year. It's easy to understand that without a savings plan in place many students will graduate with a heavy load of debt as they start a new career and new stage in life.

A 529 savings plan is a tax-advantaged way to save for college and K-12 tuition expenses. It provides tax-deferral, so you don't have to pay taxes on any earnings as they accumulate, and federal income tax-free distributions if used for qualified education expenses. Contributions you make to a 529 savings plan count toward your annual gift exclusion of $18,000 in 2024. A special 529 savings plan rule allows you to contribute up to five years of annual gifts (or $90,000 in a single year). Married couples can double that amount to $180,000 per student.

When it comes to making a gift for a grandchild's education, you may wonder how the gift should be made – to a 529 savings plan you own, to a 529 savings plan the student's parents already have or will establish, or directly to the student or parents. Before you decide, there are some things you should consider.

Grandparent-Owned 529 Savings Plans

If you decide to establish a 529 savings plan and be named the account owner, not only will you be in charge of the investment decisions and when or how the plan's assets are used, you also may be eligible for a state income tax deduction or credit for the contributions you make. Keep in mind that the impact on the student's financial aid will be different than if a parent is the account owner. Grandparent-owned 529 savings plan assets are not included on the Free Application for Federal Student Aid (FAFSA).

Also, because you can withdraw the money for yourself if you need it, 529 savings plan assets are usually counted for Medicaid eligibility. In addition, although completed gifts are usually excluded from your estate, if you elect to use the 5-year advance gifting strategy and you die before five years has passed, any unrealized gifts will be pulled back in to your estate.

Parent-Owned 529 Savings Plans

If you would like to make the contribution to a 529 savings plan that the student's parents own, make sure you check with the plan's administrator before making the contribution. Some 529 savings plans will not allow contributions from a third-party, such as a grandparent. If they can be made, keep in mind that these gifts are considered completed gifts to the student (beneficiary) not to the parent (account owner). Also, because the parent is the account owner, you will not be able to decide how the contribution is invested or when it is used for education expenses. In addition, some states require you to be both the contributor and the account owner to receive the state tax deduction or credit.

Gifting to the Student or Parents

If you decide to give the money directly to the student or parents, keep in mind that with this approach, the advanced 5-year gifting strategy is not available. Your gift would be limited to $18,000 in 2024 per person or a gift tax return would be required. It would be up to the student or parent's discretion to use (or not use) the funds as a contribution to a 529 savings plan. Assets that are not contributed to a 529 savings plan but are invested in the student's name would be treated as a student asset on the FAFSA and would more negatively impact the financial aid calculation than if held in a parent's name.

For more information on getting an education savings plan started or making contributions to a plan that is already in place, contact your financial advisor.

Please remember, Benjamin F. Edwards does not provide legal or tax advice, therefore it is also important to consult with your legal and tax professionals for additional guidance tailored to your specific situation.