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| **Be Smart When Paying for Your Grandchildren’s Education****Many grandparents feel strongly about contributing to their grandkid’s education. Thankfully, there are numerous ways to help, and your financial professional can advise you on the one that makes the most sense.**Ideally, your education gifts to grandchildren would provide the most flexibility and the fewest disadvantages. If possible, you’d like to avoid triggering gift taxes or adding assets that may limit a student’s financial aid. Be fully informed before gifting money, starting a savings plan, or paying for tuition directly.**There’s nothing simpler than paying tuition directly.** Paying your grandchildren’s tuition directly to their schools has the benefit of not triggering a gift tax. While this method is certainly simple, it requires (potentially huge) lump-sum payments each academic semester for each student. That might be OK if you are wealthy or you’ve saved up the money over many years, but many grandparents don’t fall into either category. Furthermore, your gift may reduce aid eligibility dollar for dollar, and the gift tax exclusion applies only to tuition, not other educational expenses.**Fund a 529 college plan.** This is a tax-advantaged investment in which your contributions (up to each contributor’s current annual limit of $15,000/student – couples can contribute $30,000) grow tax-deferred. Your contributions do not incur gift tax and withdrawals are tax-free when used to pay for qualified educational expenses, including up to $10,000 in student loans. It is possible to superfund a 529 by contributing five years of gifts all at once, however it is complicated and you should seek tax advice before considering this. Also, get help to decide whether to use a college savings plan or a prepaid tuition plan—both have their pros and cons.**Contribute to special accounts.** One such account is the Coverdell Education Savings Account (ESA). Like a 529, this account allows for tax-deferred growth, and tax-free withdrawals when the money is used for qualified expenses. Any other use of the money triggers income taxes and a 10% penalty on earnings, and contributions (maximum $2,000/year) are not tax-free. A custodial account (under the Uniform Gifts to Minors Act or Uniform Transfers to Minors Act) permits you to put money into trust for your grandkids, and contribute up to $15,000 per year ($30,000 for couples) free of gift tax. Unfortunately, these accounts count as student assets and can limit financial aid.**Trust accounts can help.**For example, a grandchild’s 2642(c) trust allows grandparents to make annual gifts that are exempt from the generation-skipping transfer (“GST”) tax. Each trust pertains to only one child, and it must be used for the benefit of that child, including paying for educational expenses. Alternatively, you could set up a single Dynasty Trust rather than individual 2642(c) trusts for each grandchild. A Health and Education Exclusion Trust is yet another option, and it doesn’t trigger GST tax for distributions to educational institutions. Trusts can be expensive, are numerous and complex, so always work closely with an expert.**Do not dip into your retirement funds.**You may be tempted to withdraw money from your retirement accounts and use it for your grandkids’ education. Don’t do it—you need that money to pay your own expenses after you retire. If you are thinking about helping your grandchildren with their college costs, contact me for a consultation on which options will fit best into your own financial plans.Prior to investing in a 529 Plan investors should consider whether the investor’s or designated beneficiary’s home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state’s qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

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