Superfunding a 529 Plan

Contributions to 529 plans are considered gifts for tax purposes. In 2023, you can give up to $17,000 per recipient without triggering gift tax. There is a special rule that allows you to "superfund" five years' worth of "annual gifts" into a 529 in a single year without gift-tax consequences. For 2023, you can contribute up to $85,000 per 529 plan beneficiary and treat the contribution as if it were made over five consecutive years. This superfunding feature allows a donor to front-load a 529 plan and over time removes assets from the donor's estate.

Below are several reminders and best practices when using the 529 five-year election:

- ☐ Contributions subject to the election are spread **equally** over five calendar years. For example, an election on $50,000 is treated as $10,000 in the current year, and $10,000 in each of the next four years. No exceptions.

- ☐ You cannot elect a different number of years. The election is for exactly five years.

- ☐ The election applies to all 529 plan contributions, up to the maximum for that year (five-times the annual exclusion amount).

- ☐ Individuals using the five-year election should inform their tax advisor as a Form 709 gift tax return needs to be filed and the gift details should be tracked.

- ☐ A taxpayer may make the election more than once in a five-year period; however, keep in mind that subsequent elections are layered on top of prior election amounts. For example, if a five-year election is made in year one on $50,000 of contributions, the gift is treated as $10,000 in year one and $10,000 in year two through five. In year two, if the same taxpayer contributes another $25,000 and makes the five-year election, it is counted as a $5,000 gift in year two, and $5,000 in each of year three through six. Total gifts in year two are now $15,000, consisting of $10,000 from the year-one election, and $5,000 from the year-two election.

- ☐ If a family desires additional contributions to 529 accounts during the election period, one option is to have a spouse or another individual make the subsequent gift(s). This can avoid complications related to layering multiple elections since the election is specific to the person making the contribution and not the beneficiary of the 529 plan.

- ☐ The amount allowed under this election is tied to the gift-tax annual exclusion and should increase in future years with inflation. This may create room for additional gifts in subsequent years.

- ☐ Do not forget to account for other gifts made during the year. If you make other gifts to the 529 plan beneficiaries, even small gifts for birthdays or holidays, you should reduce the amount contributed to the 529 plan to avoid exceeding the annual limit. There is no de minimis exception in the federal gift tax rules.

- ☐ 529 plans are not included in the donor's taxable estate; however, if the donor dies during the five-year election period, a prorated portion of the contribution is included in the donor’s estate.

- ☐ Many states offer tax benefits for 529 plan contributions to in-state plans; however, you should review your state’s rules and treatment of carryovers from prior years. Not all states allow a tax benefit for carryover contributions.

For more information on state-by-state 529 plan benefits, visit www.savingforcollege.com and speak with your tax advisor and portfolio manager to discuss your personal situation.