

ASHWORTH & ASSOCIATES, P.C.

Newsletter

How does the annual gift tax exclusion apply to contributions to a 529 plan?

Answer:

All contributions to 529 plans are considered present interest gifts and qualify for the annual federal gift tax exclusion. This means that you can contribute up to \$13,000 per year, per beneficiary without incurring federal gift tax. So, if you contribute \$15,000 to your son's 529 plan in a given year, for example, you'd ordinarily apply this gift against your \$13,000 annual gift tax exclusion. The remaining \$2,000 would be a taxable gift and you'd report it on a federal gift tax return.

However, you can elect to treat large contributions (up to \$65,000 in a given year) as if made evenly over a five-year period. You make this election on your federal gift tax return (which you must file if your gift is over \$13,000). For example, if you make a \$65,000 contribution and make the election, your contribution will be treated as if you'd made a \$13,000 gift for each of five years.

Although your gifts over \$13,000 in a year are taxable gifts, you may not actually write a check for the tax. Remember that you must use up your \$1 million applicable exclusion amount before you'd be liable for an out-of-pocket payment for the gift tax.