UBS

Unlocking the benefits of 529 Plans

Estate planning and other planning features of 529 plans

Families looking to prepare for future education expenses have many choices available to them: Savings accounts, Coverdells, ROTH IRAs, UGMA/UTMA accounts and 529 plans. However, the unique features of 529 plans can make them a top option to consider. 529 plans have no eligibility restrictions based on income, no age or time limits to distribute, and generous contribution limits. In addition, the estate planning benefits make them much more than just a "college savings account."

Let's look at six features of 529 plans and review their potential benefits.

Income, estate and gift taxes
529 contributions do not receive a federal income tax deduction, but certain states provide a state income tax deduction or credit of various amounts. However, under federal gift tax regulations, 529 contributions are considered completed gifts that reduce the value of the contributor's estate. A 529 contribution up to $17,000 per person is eligible for the gift tax exclusion from a taxable estate per year in 2023.

In addition, the accelerated gifting option available in 529 plans allows the contributor to make up to five times the annual gift tax exclusion to any individual in a single year without triggering federal gift taxes (that is up to $85,000 per individual; or $170,000 for couples filing jointly in 2023).

How the gift tax exclusion works
Let's take a simple example of a grandmother with 10 grandchildren.
– Contributing $85,000 (five times the annual gifting limit of $17,000 in 2023) to a 529 plan for each grandchild removes $850,000 from her estate.
– If she is married, her spouse can also contribute $85,000 per grandchild for a total of $1.7 million removed from the couple's taxable estate.
– Every five years, the couple can make another accelerated gift to each grandchild based on the annual gift tax exclusion in place at that time, removing upwards of another $1.7 million from their estate.*
– Once the 529 account is funded to the state's maximum allowable balance (generally between $235,000 and $569,000), they are free to open second 529 plan for each grandchild in a different state.

Account ownership and control
The 529 account owner always retains full access and control, despite the assets being moved outside of their taxable estate. This means the account owner always decides how to invest the assets, limited only by the selection of investments offered by the 529 plan selected. They can also choose when, to whom and how much to distribute.

The designated beneficiary—usually a child or grandchild—typically will never have any rights or claims to the 529 account. For example, they do not become the owner of the account when they reach the age of majority. When the account owner passes away, the successor owner named takes control of the 529 account. There is never any tax, penalty, fee, or frequency limit on one's ability to change the designated beneficiary or successor owner, and in most states, the account owner can even remove themselves as account owner if they wish.

Eligible expenses: College, vocational, trade school and apprenticeships

While most people think of 529 plans as a college savings account, "college" means so much more than an elite private university. Any school on the US Department of Education's website list of institutions are eligible to participant in federal student aid programs are qualified educational institutions for 529 withdrawal purposes.

This can include vocational or trade schools such as those offering culinary or beauty skills training. Certain apprenticeship programs also qualify. Qualified expenses include room, board, textbooks and supplies for these higher educational institutions. Up to $10,000 per year can be used to pay for tuition at elementary or secondary (i.e., K-12) schools. Finally, up to $10,000 of a 529 can be used to pay principal and interest on qualified education loans of the 529 beneficiary or a sibling of the 529 beneficiary.

Non-qualified distributions

While it is true that tax-free distributions must be for eligible educational expenses, a non-qualified withdrawal is never fully taxable since the contributions were not tax-deductible at the federal level. Income taxes and a 10% penalty are only applied to the earnings portion of the withdrawal. The 10% penalty is waived in the case of death or disability of the beneficiary or if the beneficiary receives a scholarship.

Rollovers

Rollovers to a new beneficiary: A beneficiary must be named when a 529 account is established, but the 529 account owner has an unlimited ability to switch the beneficiary to another family member, including themselves. Such a non-taxable rollover is permitted to many members of the beneficiary's family including their spouse, child, sibling, ancestors, and first cousins.

New in 2024: Convert 529 assets into a Roth IRA

Starting January 1, 2024, 529 assets can be converted to a Roth IRA for the beneficiary if certain qualifications and limits are satisfied, including:

- 529 account must have been opened for at least 15 years.
- The beneficiary is subject to a maximum lifetime rollover of $35,000.
- The annual limit on the rollover is the lesser of the beneficiary's earned income or the annual contribution limit each year (currently $6,500 for individuals under age 50), reduced by any IRA contribution made for that year.
- Amounts contributed to the 529 account in the past five years and their earnings are ineligible to be rolled over.

Keep in mind that not all states may recognize the rollover feature of the 529 plan and may tax the distribution at the state level.

Creditor protection

In some, but not all states, assets in 529 plans are protected from creditors. Creditor protection rules for 529 plans vary by state. For example, in some states only assets held in an in-state 529 plan are exempt from creditor claims, and some states limit protection from creditors to a certain amount. Since creditor protection varies based on applicable state law, consult with a legal advisor for details to understand how the rules in your state apply to your circumstance. Funds invested for two years or longer are protected against claims of bankruptcy creditors under the Federal Bankruptcy Code.

Let's have a conversation

Talk to your Financial Advisor to see how the flexible features of 529 plans can help you pursue your estate planning, legacy and other wealth planning goals.

All 529 Plan provisions, including plan minimums, fees, expenses, requirements, features and benefits vary by state. Before you invest in a 529 plan offered at UBS Financial Services, request the plan's official statement from your Financial Advisor and read it carefully. The official statement contains more complete information, including investment objectives, charges, expenses and risks of investing in the 529 plan, which you should consider carefully before investing. You should also consider whether your home state or your beneficiary's home state officers any state tax or other benefits that are only available before you investments in such state's 529 plan. 529 plans are not guaranteed by any state or federal agency.

* If the grandparent uses the accelerated gifting feature and passes away before the end of the five-year period, the remaining portion will be added back to the grandparent's taxable estate, subject to federal and state estate taxes. For example, if a grandparent contributed the maximum $85,000 and dies during the third year, only the first $51,000 is considered a completed gift for tax purposes. The remaining $34,000 will be added back to the grandparent's taxable estate.

A contribution to a 529 plan is a present gift that qualifies for the Generation Skipping Tax (GST) annual exclusion. A change in beneficiary would only result in GST issues if the new beneficiary is two or more generations below the original beneficiary and it exceeds any available annual exclusion.

For a deeper review of distribution rules for 529 plans, ask your Financial Advisor for a copy of the UBS 529 withdrawals factsheet.

Access the US Department of Education's website list of institutions eligible to participant in federal student aid programs at: https://fsapartners.ed.gov/knowledge-center/library/federal-school-code-lists/2023-08-10/2023-24-federal-school-code-list-participating-schools-august-2023.

Refer to IRS Publication 970 at *irs.gov* for more information on 529 plans including the definitions of disabled, and eligible beneficiaries.

Purpose of this document.
This is marketing material intended to help you understand services and investments we offer. It should be used solely for the purposes of discussion with your UBS Financial Advisor and your independent consideration. UBS does not intend this to be fiduciary or best interest investment advice or a recommendation that you take a particular course of action.

Personalized recommendations or advice.
If you would like more details about any of the information provided, or personalized recommendations or advice, please contact your UBS Financial Advisor.

Conflicts of interest.
UBS Financial Services Inc. is in the business of establishing and maintaining investment accounts (including retirement accounts) and we will receive compensation from you in connection with investments that you make, as well as additional compensation from third parties whose investments we distribute. This presents a conflict of interest when we recommend that you move your assets to UBS from another financial institution or employer retirement plan, and also when we make investment recommendations for assets you hold at, or purchase through, UBS. For more information on how we are compensated by clients and third parties, conflicts of interest and investments available at UBS please refer to the "Your relationship with UBS" booklet provided at **ubs.com/relationshipwithubs**, or ask your UBS Financial Advisor for a copy.

No tax or legal advice.
UBS Financial Services Inc., its affiliates and its employees do not provide tax or legal advice. You should consult with your personal tax and/or legal advisors regarding your particular situation.

Important information about brokerage and advisory services.
As a firm providing wealth management services to clients, UBS Financial Services Inc. offers investment advisory services in its capacity as an SEC-registered investment adviser and brokerage services in its capacity as an SEC-registered broker-dealer. Investment advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate arrangements. It is important that you understand the ways in which we conduct business, and that you carefully read the agreements and disclosures that we provide to you about the products or services we offer. For more information, please review the client relationship summary provided at **ubs.com/relationshipsummary**, or ask your UBS Financial Advisor for a copy.

© UBS 2023. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS Group AG. Member FINRA/SIPC. Review Code: IS2306307. Expiration: 10/31/2024. 2023-1073800