



FUNDING EDUCATION

Three strategies for supporting the education of your loved ones

With the current high cost of education, you may wish to help fund current and future education expenses for your loved ones. Unfortunately, gifting a large sum of money may require the use of some of your lifetime gift tax exemption (\$15 million per donor in 2026) to avoid a 40% gift tax under certain circumstances. In addition, there is a generation-skipping transfer (GST) tax of 40% for any gift made to someone more than one “generation” below you (e.g., a grandchild or grandniece), although there is a lifetime GST exemption (also \$15 million in 2026). The good news is there are education funding strategies that may allow you to avoid using your lifetime exemptions and paying either of these transfer taxes. By understanding these strategies, you can select the ones that make the most sense for you and your loved ones.

1) Make annual exclusion gifts

Making annual exclusion gifts is a simple, yet potentially powerful, way to assist with education costs. Each year, you can give up to the gift tax annual exclusion amount (\$19,000 in 2026) to as many recipients as you like. If you want to use your annual exclusion to help fund education expenses, you have several options, including:

- Making a direct gift to a loved one
- Funding a Section 529 education savings account (Read more about 529 plans below)
- Contributing to a Uniform Transfers to Minors Act (UTMA) account
- Making a gift to a trust that qualifies for the annual exclusion — for example, a Section 2503(c) trust for a minor or a Crummey trust

2) Pay education expenses directly

Without using your annual exclusion or lifetime gift and GST exemptions, you can pay for education expenses and incur no transfer taxes as long as you pay the education provider directly. Paying these education expenses directly to the provider has the following benefits:

- The ability to spend as much as you wish without triggering gift or GST taxes
- The flexibility to pay for any level of education, from preschool to graduate school
- The option to make tuition payments annually or prepay tuition expenses

3) Lend money

You also have the option to lend money to your loved ones for education expenses. Under rules set forth in the Internal Revenue Code, an individual can make loans to family members at lower rates than commercial lenders without the loan being deemed a gift. Key characteristics of an intra-family loan include:

- A bona fide credit relationship, including formal loan documents and the payment of interest, between the lender and the borrower
- Interest being paid within the family rather than to a third-party lender

Funding the education expenses of loved ones is a great way to provide financial assistance and may be done without triggering transfer taxes. If you plan to fund education expenses for your loved ones now and into the future, it's a good idea to ensure that your estate plan contains provisions covering any future education expenses. **For more information on strategies for funding education, visit our [Funding Education](#) resource page.**

More about 529 plans

Section 529 education savings plans are investment account programs established and maintained by a state. You may set up and contribute to a separate account for each loved one who you wish to benefit. The earnings in a 529 plan grow tax-deferred and withdrawals are income tax-free for federal purposes and in most states provided such withdrawals pay for college, vocational or other accredited school, including postsecondary credential programs, and related expenses.¹

Choosing a 529 plan

It pays to be a savvy shopper when deciding which state's plan to use. When choosing between state plans consider:

- Whether there is an income tax deduction for contributions made to your resident state's 529 plan versus another state
- How a state defines “qualified higher education expenses” (see below) and how that may differ from other states or federal law. Expenses classified as “nonqualified” expenses may subject a 529 plan withdrawal to state income taxes, withdrawal penalties and the recapture of any tax deductions claimed.
- The contribution limits for each state's plan and the diversity of investment funds

Gifting to a 529 plan

Contributions to a 529 account that qualify for the annual exclusion are generally free from gift tax and GST tax. Federal law also permits “front loading” a 529 account by contributing up to five years of annual exclusion gifts at once, but you must file a gift tax return electing to treat the gift as if it had been spread over five years.

Qualified higher education expenses²

529 plan withdrawals aren't federally taxable (and may be tax-free at the state level as well) when used to pay for “qualified higher education expenses.” These expenses include:

- Tuition, fees, books and supplies
- Equipment required for enrollment or attendance at an eligible program
- Expenses for special needs services in the case of a special needs beneficiary incurred in connection with enrollment or attendance at an eligible program
- Computer purchase, peripheral equipment and internet service while student is enrolled in eligible program
- Room and board
- Up to \$20,000 per year may be used for tuition costs and certain other expenses for kindergarten through 12th grade or payments toward qualified education loans

Changing the designated beneficiary

If there is money left over in a beneficiary's account, the account owner can change the beneficiary to another qualified family member without incurring income tax or penalty.

Rollovers from 529 to Roth IRA

Section 529 account owners are permitted tax-free and penalty-free rollovers of up to \$35,000 from 529 education savings plans to Roth IRAs, assuming certain rules as met.

For more information on 529 plans, visit our [Funding Education](#) resource page.

¹ Internal Revenue Code Section 529(e)(3)

² Internal Revenue Code Section 529(e)(3)