

# Funding education



# Fulfill the promise of your ambitions

What's your vision for success? We've learned that success often means achieving a sense of satisfaction and joy about the use of your wealth for yourself, your family and causes you hold dear.

It also means having peace of mind about your financial affairs, trusting that your wealth advisor is managing the complexities of wealth ownership. Additionally, for some, it means that plans are in place to realize your vision for broader community impact and a lasting family legacy.

CIBC Private Wealth can be your partner for all of your investment, wealth planning and private banking needs. Our professionals are dedicated to delivering exceptional performance and service with an unwavering focus on you and your best interests.

We hope the information on the following pages will inspire you to articulate your own vision for your wealth. It would be our privilege to help you bring your ambitions to life.

# Funding education

With the current high cost of education, you may wish to help fund current and future education expenses for your loved ones. Innocuous as it may seem, however, this kind of generosity can subject you to a 40% federal gift tax under certain circumstances. And if you are a grandparent looking to help with a grandchild's education costs, you could also be subject to a generation-skipping transfer (GST) tax of 40%. The good news is that there are many strategies (including certain gifts, direct payments and loans) that can help fund education costs without triggering any of these transfer taxes. By understanding the options, you can select the strategy or strategies that work best for you and your loved ones.

## 1. Making gifts to fund education expenses

One of the ways you can help with education costs is by making lifetime gifts — either outright or in trust. As you contemplate gifts for your loved ones to help satisfy education expenses, it can be helpful to first think about ways to minimize potential transfer taxes and ways to structure your gift.

### Transfer tax considerations

To minimize or avoid transfer taxes, you may consider annual exclusion gifts or gifts sheltered by your gift and GST tax exemptions.

**Annual exclusion gifts:** Annual exclusion gifts are a simple but potentially powerful tool 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 are married, you and your spouse together can give twice the annual exclusion amount (\$38,000 in 2026). Key characteristics of annual exclusion gifts include:

- Annual exclusion gifts do not count against your gift or estate tax exemption.
- Annual exclusion gifts allow you the flexibility to give when you can afford to do so, without compromising your own standard of living.
- If utilized on a regular basis, annual exclusion gifts can provide a significant tax-free revenue stream to fund education costs.
- If spouses make one or more gifts to a single recipient and the total amount given exceeds the annual exclusion amount, they may need to file a gift tax return to “split” the gift between them.
- Only certain gifts to trusts will qualify for the annual exclusion (for example, the gift must be deemed a “present interest” according to IRS rules), so it is important to work with your attorney before transferring any amounts to a trust.

The following chart illustrates the results of a lifetime gifting program. It assumes that the gifts are made at the beginning of each year and will continue to grow at 6% per year outside the donor's estate.

Annual gift	5 years	10 years	15 years	20 years	25 years
\$ 19,000	\$ 113,531	\$ 265,461	\$ 468,778	\$ 740,862	\$ 1,104,971
38,000	227,062	530,922	937,556	1,481,724	2,209,943
57,000	340,593	796,384	1,406,334	2,222,585	3,314,914
76,000	454,124	1,061,845	1,875,112	2,963,447	4,419,885
95,000	567,655	1,327,306	2,343,890	3,704,309	5,524,856
114,000	681,186	1,592,767	2,812,668	4,445,171	6,629,828
133,000	794,717	1,858,228	3,281,446	5,186,033	7,734,799
152,000	908,248	2,123,690	3,750,224	5,926,894	8,839,770
171,000	1,021,779	2,389,151	4,219,002	6,667,756	9,944,741
190,000	1,135,311	2,654,612	4,687,780	7,408,618	11,049,713

**Gifts sheltered by your gift and GST tax exemptions:** If you would like to make gifts to help with education costs over and above the annual exclusion amounts described above, that excess amount may be sheltered by your remaining gift tax exemption. The gift tax exemption for each individual in 2026 is \$15 million, reduced by any prior use of that exemption. While no tax will be due, the amount of the gift reduces the amount that may be given tax-free later in life or at death, and the gift will need to be reported on a gift tax return for the year of the gift. That return is generally due by April 15 of the following year.

It is important to keep in mind that the GST tax may also apply if the gift is made to someone more than one "generation" below you (e.g., a grandchild or grandniece). While the gift may be sheltered from any GST tax by your GST tax exemption (also \$15 million in 2026), these rules are complicated and it is important to engage with your tax advisor when considering these generation-skipping gifts.

### Education gift structures

Making an outright gift to your loved ones to help with education costs is very simple and effective. However, if there are minor children involved, you may wish to retain a measure of control, or if you are looking to further leverage your gift, you may want to consider certain vehicles that can be used to hold the assets to pay education expenses.

- The Uniform Transfers to Minors Act (UTMA)** provides a simple and inexpensive method of making a gift to a minor without the expense of a trust. Money or other assets are transferred to a custodian for the benefit of the minor. Although a parent may be the custodian, if he or she dies prior to the termination of the account and contributed assets to the UTMA, the assets will be included in the parent's estate. The duties of the custodian include collecting, holding, managing and investing the assets. The custodian may make payments to the minor or for the minor's benefit (including for the minor's education) as the custodian considers advisable, without regard to another's duty to support the minor, or other income available. The custodianship terminates when the minor reaches the age specified under applicable law (between the age of 18 and 25). A drawback to UTMA accounts is the requirement that the account must terminate and be paid directly to the child by the stated age.

- **IRC Section 2503(c) trusts** permit assets to be transferred to a trustee for the benefit of a minor, and still treat the transfer as a “present interest” for purposes of qualifying for the annual exclusion. During the term of the trust, the trustee may distribute income and principal to or for the benefit of the minor (and only the minor) in its discretion, including for the minor’s education. All undistributed income and principal will be distributed to the minor when he or she reaches age 21 (or, alternatively, the minor is given a withdrawal right at the age of 21).
- **Funded Crummey trusts** are a longer-term alternative to IRC Section 2503(c) trusts. This type of trust requires that, upon each transfer to the trust, the beneficiary (or the beneficiary’s guardian if the beneficiary is a minor) is given the right for a specified period of time to withdraw the assets transferred. If the beneficiary does not exercise the right of withdrawal, the power lapses, and the assets remain in trust. The power of withdrawal creates the “present interest” necessary for annual exclusion treatment of the gifts. This type of trust need not terminate at a particular age (like UTMA accounts and 2503(c) trusts), but rather may last as long as the grantor feels advisable and states in the trust document. During the term of the trust, the trustee may distribute income and principal to or for the benefit of the beneficiary(ies) for education or for any other reason described in the trust document.
- **Dynasty trusts** include any trust that lasts longer than one generation below that of the grantor, taking advantage of the GST tax exemption to remove family wealth from the transfer tax system for as long as the trust is in existence. A dynasty trust can provide that the assets are used for each generation’s education costs.
- **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, and related expenses.<sup>1</sup> In addition, federal law provides that up to \$20,000 in 529 plan distributions may be used annually for tuition costs and certain other expenses for kindergarten through 12th grade. The use of 529 plan distributions was further expanded in 2019 to include costs of registered apprenticeship programs and payments of up to \$10,000 toward qualified education loans. In 2025, expenses for certain postsecondary credential programs became a permissible use of 529 plans. **Read more about 529 plans below.**
- **Prepaid tuition programs** are closely related to Section 529 savings plans. With a prepaid tuition program, you purchase credits on behalf of a loved one that entitle the loved one to a credit towards tuition at certain educational institutions. These prepaid tuition programs “lock in” tuition at current rates, thereby avoiding significant tuition increases. The prepaid tuition credit is limited to tuition and fees, so in conjunction with a prepaid tuition program you could consider establishing a traditional 529 plan to cover room and board, computers, and other qualified expenses. If you are worried about whether your loved one will be admitted to one of the schools participating in the prepaid tuition program, you could wait until your loved one is admitted and then “lock in” tuition for senior year (credits are redeemable 36 months after purchase). Or, if your intended beneficiary is not admitted to a participating college, you could change the beneficiary or receive a refund (possibly with a penalty). Some states, like Florida, have prepaid tuition programs that require state residency and use at an in-state public university. There is also a prepaid tuition program for private colleges, and over 300 private colleges participate in this program.

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<sup>1</sup> Internal Revenue Code Section 529(e)(3).

## 2. Pay education expenses directly

Without using your annual exclusion or gift and GST tax 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:

- Payments can cover any education stage — from preschool to graduate school.
- Tuition may be paid annually or prepaid for multiple years. The risk of prepaying, of course, is that the payments could be forfeited if your loved one does not go to that school or does not complete his or her education there.
- There is no limit to how much you can spend on education expenses for others.

## 3. Lend money to fund education costs

If you want to be repaid for the assistance you provide for education costs, then you can lend money to your loved ones rather than making a gift or paying expenses directly. 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:

- An intra-family loan allows you to assist loved ones with education expenses without using your annual exclusion or gift tax exemption.
- A bona fide credit relationship, including formal loan documents and the payment of interest, is established.
- Interest is paid within the family rather than to a third-party lender.

The use of intra-family loans may facilitate equality within a family. For example, if there are four grandchildren in one branch of the family but only one grandchild in another branch of the family, intra-family loans for education may help to maintain equal treatment among the family branches as opposed to direct gifts for each grandchild's education.

**Planning note:** If you plan to fund education expenses for your family now and into the future, it's a good idea to ensure that your estate plan contains provisions covering any future education expenses.

## More about 529 plans

**Choosing a 529 plan:** Because 529 plans vary among the different states, it pays to be a savvy shopper when deciding which state's plan to use. For example, some states allow a state income tax deduction for their residents who contribute to their state's 529 program, but some states do not. In addition, states have different rules as to what is a "nonqualified" education expense that may subject a 529 withdrawal to state income taxes, withdrawal penalties and the recapture of any tax deductions claimed. You should talk to a qualified professional about how various 529 plans and the related tax provisions affect your circumstances.

**Giftng 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 5 years of annual exclusion gifts at once (\$95,000 per person or \$190,000 for married couples in 2026), but you must file a gift tax return electing to treat the gift as if it had been spread over five years. You also forgo using the annual exclusion amount in another way for that individual during those five years. If you die before the end of the five years, the portion of the gift reflecting the number of years still remaining will be included in your estate.<sup>2</sup>

**Qualified higher education expenses<sup>3</sup>:** 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
- Expense 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

**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. Qualified family members include the beneficiary's spouse, siblings, step-siblings, parents, step-parents, grandparents, nieces and nephews, aunts and uncles, first cousins, certain in-laws, and spouses of some of these individuals. If a new family-member beneficiary is in a lower generation than the previous beneficiary, gift and GST taxes may apply.

**Rollovers from 529 to Roth IRA:** Section 529 account owners are permitted tax-free and penalty-free rollovers from 529 education savings plans to Roth IRAs, with certain limitations. The lifetime rollover limit is \$35,000, and the funds must be moved from a 529 account to a Roth IRA that benefits the same beneficiary. Also, the 529 account must have been in existence for at least 15 years prior to the rollover. You should talk to a qualified professional about these and other rules related to a 529 to Roth IRA rollover and determine if the applicable state law provides similar tax benefits.

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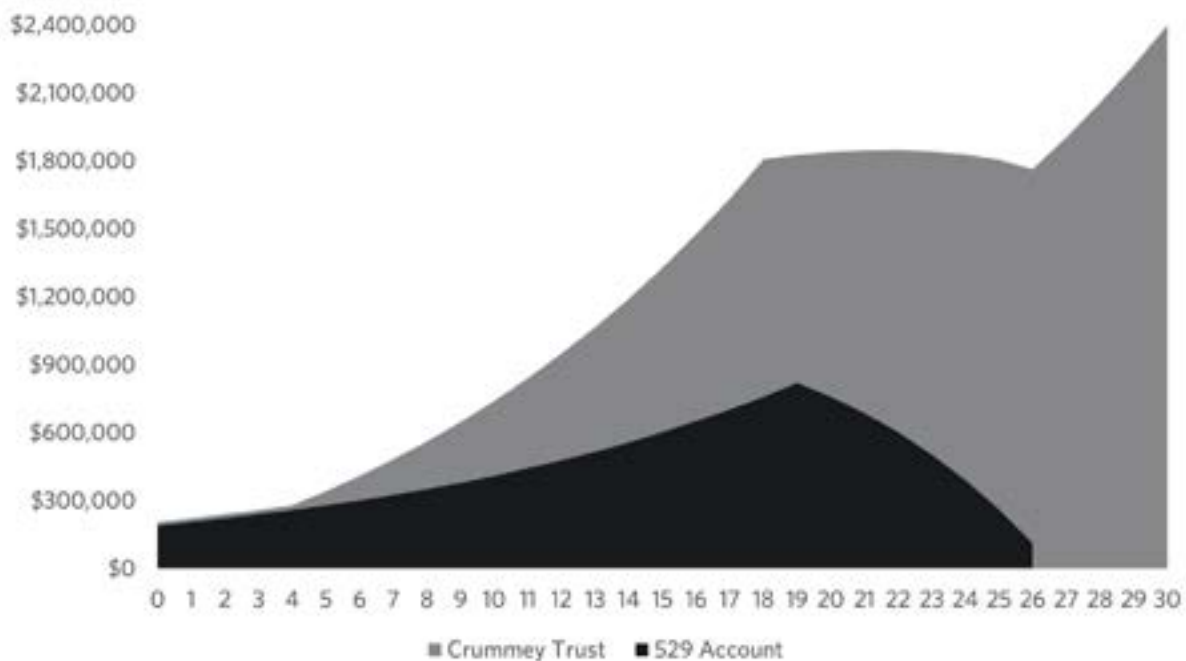
<sup>2</sup> Internal Revenue Code Section 529(c)(2).

<sup>3</sup> Internal Revenue Code Section 529(e)(3).

## Power of compounding and starting early

Given enough time and by coordinating various education savings vehicles, you can fund the entire schooling of a loved one without paying any transfer taxes. Let's say a grandfather and grandmother start a 529 plan when their granddaughter is born and immediately make a lump-sum deposit of \$190,000 into the account, reflecting five years' worth of annual exclusion gifts. As soon as that five-year period of annual exclusion gifts is complete, the grandparents begin funding a Crummey trust by making annual exclusion gifts of \$38,000 until the granddaughter begins college. Additionally, the grandparents make direct payments for her private school tuition when she begins private school at the age of six.

## Total resources available to grandchild



Assuming an investment rate of return of 6% on the trust and 8% on the 529 plan, the previous chart shows how the two savings vehicles compound, even after taxes and expenses. The chart assumes that the granddaughter uses funds in the 529 account starting in year 18, to pay her room, board and tuition during college and some graduate school.<sup>4</sup> Her withdrawals exhaust the 529 account during her fourth year of graduate school and any balance of graduate school expenses can be paid from the Crummey trust. Alternatively, if her grandparents had been living and able to pay her college and graduate school tuition directly, the 529 plan would not have been exhausted, nor would the Crummey trust have been used for education expenses, and would have continued to compound. If she did not want to subject excess 529 amounts to income and excise taxes on withdrawal for non-education expenses, she could transfer them to siblings or other family members, or even to her own children. However, these transfers may be subject to gift and GST tax.

<sup>4</sup> Cost of tuition, room and board assumed at \$50,000 with an annual 5% rate of inflation. Model reflects four years of undergraduate school and four years of graduate school.

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