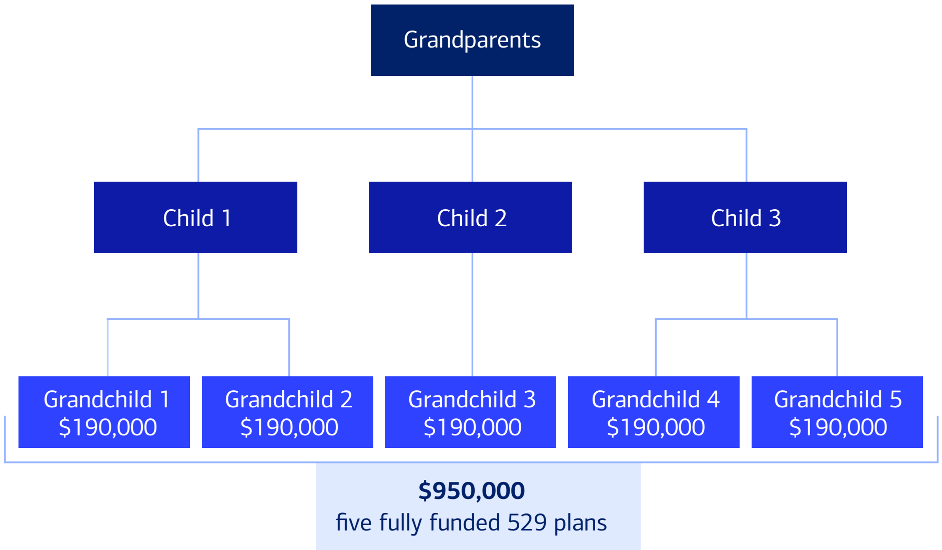
Strategic gifting and wealth transfer with 529 plans

For years, 529 plan accounts have proven to be an exceptional, tax-advantaged way to save for a child's or grandchild's education. But did you know these accounts can also act as tax-efficient vehicles for transferring significant wealth to future generations — in a way that aligns with your values and legacy goals?

For the 2025 tax year, you can gift up to $19,000 ($38,000 for married couples electing to split gifts) to as many individual recipients as you wish, without incurring federal gift taxes. With 529 plans, however, you can also take advantage of a unique provision which allows you to contribute up to five years of gifts in a single year — as long as you make no additional gifts to that beneficiary during the five-year period.[1]

This means in a single year you can potentially contribute up to $95,000 ($190,000 for a married couple electing to split gifts) to each beneficiary's 529 account. As the graphic below depicts, for families with multiple children and/or grandchildren, this affords a tremendous opportunity to remove a substantial amount of assets from your taxable estate and benefit from potential tax-deferred growth, while still retaining control of those assets and helping to fund qualified educational costs for future generations.



529 Plan Flexibility

- There are no income or age limits for opening or contributing to a 529 account
- You retain control of the account assets — free to change the beneficiary to another eligible family member at any time without tax consequences[2]
- Any potential growth in the account is on a tax-deferred basis
- Withdrawals, including any earnings, are federal income tax-free when funds are used for qualified education expenses[3,4]
- Most states offer a state tax deduction for contributions made to your home state's 529 plan, and in some cases, to any 529 plan
- Once a beneficiary graduates, remaining 529 assets may be eligible to be rolled over tax-free into a Roth IRA for their benefit (as long as certain conditions are met)[3]

5 strategies to transfer wealth using 529 plans

While the income tax benefits of 529 plans are generally well known, you may not fully appreciate the associated planning strategies 529 plans offer. Even though you retain control over the account assets, any gifts to a 529 plan are deemed 'completed gifts' and therefore not included in the value of your federal taxable estate.

This makes 529 plans a powerful wealth transfer tool for families focused on multigenerational planning. As a result, a number of strategies have emerged which you may want to consider:

1. Use your RMDs to fund 529 accounts

If you don't need some or all of your annual required minimum distributions (RMDs) for living expenses, you might want to consider using that income to fund a 529 plan account — allowing those assets to continue growing tax-deferred and enabling tax-free withdrawals when used for eligible education expenses. Depending on the state you reside, you also may be eligible for a state income tax deduction on any contributions you make.

2. Establish a generational family education trust

Because 529 plans allow you to change beneficiaries to a wide array of family members, they can function as a convenient family education trust for future generations.

- As current beneficiaries graduate, remaining assets can then be transferred to other members of your extended family (e.g., great grandchildren, first cousins, nieces, nephews, etc.).
- It is important to note, however, that when determining eligible family members, you must look at the relationship between the original beneficiary and the newly named beneficiary.

3. Name a successor participant to transfer wealth more efficiently

529 plans allow you to name a successor participant to take ownership of the 529 account (without any federal gift or estate tax implications) upon the death of the current participant.

- For example, you could open 529 plan accounts for each of your grandchildren and name their parents as successor participants — allowing the assets to transfer free of gift and estate taxes if the original participant should die.

4. Jumpstart a beneficiary's retirement by rolling unused 529 assets into a Roth IRA

While 529 plans are designed to invest for education expenses, a new provision in SECURE 2.0 legislation allows up to $35,000 to be transferred tax-free to fund the 529 beneficiary's Roth IRA account.

- Given this new opportunity, you may want to consider this when determining the funding necessary for the beneficiary, with the intent of potentially transferring funds to a Roth IRA.
- Not only is this a great way to jumpstart a beneficiary's retirement savings, it can help build strong savings habits (e.g., upon graduation, consider using assets remaining in the 529 plan account to match any Roth contributions, up to the annual Roth contribution limit, the beneficiary makes during the first few years of work).

5. Use a 529 plan as a passthrough for state tax deductions

Even if a beneficiary is nearing or already in college and you plan to pay out of pocket for education expenses, many states still allow you to fund a 529 and take a state income tax deduction (potentially several hundred dollars for a married couple), then immediately withdraw funds to pay for eligible expenses. This only makes sense, however, if:

- The participant's state of residence offers a state tax deduction for 529 contributions, and
- The 529 plan offers an investment option with no sales charge and no contingent deferred sales charge (e.g., an FDIC savings portfolio, money market or stable value fund).

Talk to your Merrill Wealth Management Advisor to explore whether these wealth transfer strategies align with your broader financial planning goals.

Before you invest in a Section 529 plan, request the plan's official statement from your Merrill Wealth Management Advisor and read it carefully. The official statement contains more complete information, including investment objectives, charges, expenses and risks of investing in the plan, which you should carefully consider before investing. You should also consider whether your home state or your designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds and protection against creditors that are only available for investments in such state's 529 plan. Section 529 plans are not guaranteed by any state or federal agency.

Merrill, its affiliates, and financial advisors do not provide legal, tax, or accounting advice. You should consult your legal and/or tax advisors before making any financial decisions.

[1] Contributions during 2025 between $19,000 and $95,000 ($38,000 and $190,000 for married couples electing to split gifts) made in one year can be prorated over a five-year period without subjecting you to federal gift tax or reducing your federal unified estate and gift tax credit. If you contribute less than the $95,000 ($190,000 for married couples electing to split gifts) maximum, additional contributions can be made without you being subject to federal gift tax, up to a prorated level of $19,000 ($38,000 for married couples electing to split gifts) per year. Federal gift taxation may result if a contribution exceeds the available annual gift tax exclusion amount remaining for a given beneficiary in the year of contribution. For contributions between $19,000 and $95,000 ($38,000 and $190,000 for married couples electing to split gifts) made in one year, if the account owner dies before the end of the five-year period, a prorated portion of the contribution allocable to periods after the date of death of the donor may be included in the donor's estate for federal estate tax purposes. Please consult your tax and/or legal advisor for guidance.

[2] If the new beneficiary is one or more generations below the current beneficiary, the beneficiary change will be considered a new gift and may be subject to a generation-skipping transfer tax.

[3] State tax treatment may vary by state.

[4] To be eligible for favorable tax treatment afforded to the earnings portion of a withdrawal from a Section 529 account, such withdrawal must be used for "qualified higher education expenses," as defined in the Internal Revenue Code. The earnings portion of a withdrawal that is not used for such expenses is subject to federal income tax and may be subject to a 10% additional federal tax, as well as applicable state and local income taxes. The additional tax is waived under certain circumstances. Qualified higher education expenses include: tuition, fees, books, supplies and equipment required for enrollment or attendance of the beneficiary at an eligible educational institution, certain room and board expenses, special needs services incurred in connection with enrollment or attendance at an eligible educational institution, and computers or peripheral equipment, computer software, or internet access and related services that are to be used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible educational institution. The beneficiary must be attending an eligible educational institution at least half time for room and board expenses to be considered a qualified higher education expense, subject to limitations. Institutions must be eligible to participate in federal student financial aid programs to be eligible educational institutions. Some foreign institutions are eligible. You can also take a federal income tax-free distribution from a 529 account of up to $10,000 per calendar year per beneficiary from all 529 accounts to help pay for tuition at an elementary or secondary public, private or religious school. Qualified higher education expenses now include expenses for fees, books, supplies, and equipment required for the participation of a beneficiary in an apprenticeship program registered and certified with the Secretary of Labor under the National Apprenticeship Act and amounts paid as principal or interest on any qualified education loans of the beneficiary or sibling of the beneficiary, up to a lifetime maximum of $10,000 per individual. Distributions with respect to the loans of a sibling of the beneficiary will count towards the lifetime limit of the sibling, not the beneficiary. Such repayments may impact student loan interest deductibility. State tax treatment may vary for distributions to pay for tuition in connection with enrollment or attendance at an elementary or secondary public, private or religious school, apprenticeship expenses, and payment of qualified education loans.

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