**Tax Tips to Remind Clients That You Are the Center of Their Financial Universe- Part 3**

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--529 Plans: Thinking Outside The Box – Using 529s To Save Estate Taxes--

Think 529 plans are just a way to save taxes when doing college financial planning? Well, it’s time to think outside the box!! They can also be a valuable estate planning tool.

Years ago, I had an 80+ year old client, Lou, whose assets greatly exceeded both the state and federal estate tax exemption limits. Lou had three grown children and eight grandchildren, some who were adults and some who were still minors.

At that time (2009), the federal gift tax exclusion limit was $13,000. As all advisors know, the 529 plan rules allow taxpayers to front load plans with five years’ worth of gifts without any adverse tax consequences. And the best part: Even though Lou would be the owner and could control disbursements during his lifetime, the 529 plans would not be part of his estate.

For Lou, that meant he could fund $13,000 X 5 or $65,000 per 529 plan for the eleven members of his family (who were all in his will anyway) for a total of $715,000. At Lou’s combined state and federal estate tax rate of 55%, that meant a tax savings of $393,250.

Lou asked, “But what happens if they don’t use it for college?” After all, his three kids were done with school and involved in their careers. And ditto for some of the grandchildren.

My response to Lou was just two words: “Who cares?” Lou’s response was slightly longer and involved those dreaded letters - IRS. He was concerned about income taxes and penalties if the money was not used for college. I explained to Lou that upon his passing, when any of the eleven cashed in the 529, the only tax consequence would be an income tax at their tax rate plus an additional 10% but only on the investment earnings in the 529 plans. Suddenly Lou did not care either!!

Shortly thereafter, Lou wrote checks for a total of $715,000. Lou passed away several years later and the ownership of the 529s passed from Lou to the beneficiaries. Susan, his lawyer daughter and executor of his estate, called after the estate was settled to express the family’s gratitude for saving them nearly $400,000 in estate taxes.

And the costs to Lou: -0-. He had millions in American Fund products and we funded the 529s within the American Funds family.

As with my previous tax tips, this is another way to reach out to a client where there is no “sale” involved and will keep you in their heads as The Center of Their Financial Universe.