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Help a grandchild with education costs—and get tax benefits, too[1]

A 529 College Savings Plan account is a great way to help with education savings:

- Proceeds can be used for any eligible education institution, including many outside the US
- Anyone can contribute on behalf of the child
- You pay no federal income taxes on earnings or withdrawals for qualified education expenses[1, 2]
- A wide range of investment choices: target enrollment, objective-based and individual portfolio options

You keep control of your assets

Even though your grandchild is the beneficiary, you always control withdrawals from the account. The money will not be transferred to the child when the child reaches legal age, as is the case with other types of savings accounts. In addition, you can change the beneficiary to a different family member at any time.

You can reinvest your IRA distributions

Required minimum distributions from your retirement plan account can be contributed to a 529 College Savings Plan account. While you will pay income taxes on the IRA distributions, your money will have the opportunity to continue growing tax free.

Multiple tax benefits

- You pay no federal income taxes on account earnings while the account is invested and no federal income taxes when you withdraw the money to pay for qualified education expenses of your beneficiary.
- A special exclusion enables you to make up to five years' worth of gifts in a single year to a single beneficiary without triggering the federal gift tax.[3]
- A 529 College Savings plan may provide estate tax benefits to families whose estates exceed the estate tax exemption. Although contributions are removed from your estate for estate tax purposes, you retain control over the assets, a benefit unique to 529 plans.
- Some states offer a state tax deduction for contributions into a 529 plan.

1. Tax benefits are conditioned on meeting certain requirements. Federal income tax, a 10% federal tax penalty and state income tax and penalties apply to non-qualified withdrawals of earnings. Generation-skipping tax may apply to substantial transfers to a beneficiary at least two generations below the contributor. Gift examples are general; individual financial circumstances and state laws vary – consult a tax professional before investing. If the contributor dies within the five-year period, a prorated portion of contributions may be included in their taxable estate.
2. The Federal Tax Cuts and Jobs Act (TCJA), which was signed into law in December 2017 and became effective January 1, 2018, expanded the definition of a qualified higher education expense to include up to $10,000 (federal tax-free withdrawals) per year in tuition expenses at private, public and religious elementary and secondary schools (K-12). The state tax consequences of using 529 plans for elementary or secondary education tuition expenses will vary depending on state law and may include recapture of tax deductions received from the original state and may also include taxes and penalties. Some states do not offer state tax deductions or tax credits for K-12 tuition, and other restrictions may apply.
3. Accelerated gifting is a special provision of 529 plans that permits a contributor to combine five years of contributions (the current year plus four future years) in a single year. However, no additional gifts may be made until five years have passed. They are subject to the annual federal gift tax exemption limit in 2024 of $18,000 for individuals and $36,000 for married couples. Election is made by filing a federal gift tax return. While contributions are generally excludable from contributor's gross estate, if electing contributor dies during 5-year period, amounts allocable to years after death are includable in contributor's gross estate. Consult your tax professional.

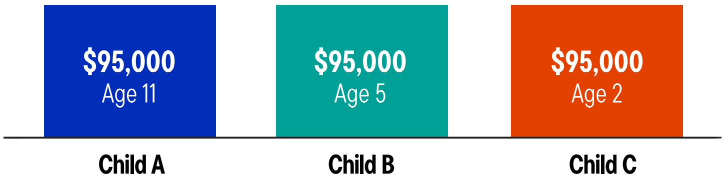
Case study: 529 College Savings Plan in action

Grandparents (or parents) who use a 529 College Savings plan can reduce their potential federal estate tax bill while retaining control over the assets and saving for the rising costs of college.

Grandparent Uses a 529 College Savings Plan

Current gross estate value: $13,780,000

Contributes: $285,000[4]



Adjusted gross estate value: $13,495,000

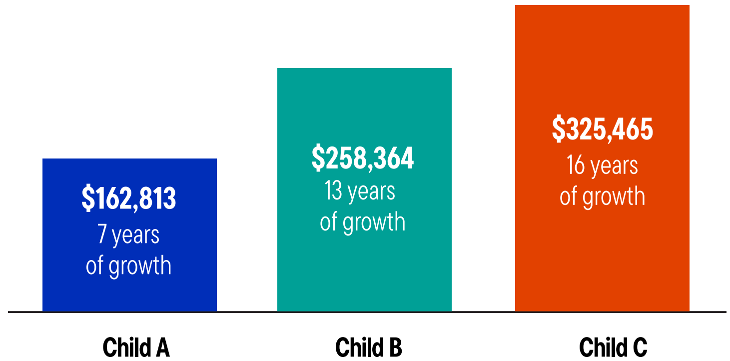
Estate tax exemption for 2025: $13,990,000

Estate taxes due: $0

Hypothetical examples for illustrative purpose.

4. Contributions to a 529 plan are considered completed gifts for tax purposes, and the amount of the contribution is immediately removed from the donor's taxable estate. Contributions to a 529 plan that are allocated for federal gift tax purposes to years after your death will be included in your estate. There are no yearly contribution limits to a 529 plan. However, each state has a different aggregate contribution limit for each 529 account. Please contact a tax professional for more information.

Hypothetical Value of 529 Accounts when Children Reach Age 18



Assumes an initial investment of $95,000 for each child and shows a compounded annual hypothetical 8% growth without taxes. This is a hypothetical example only and does not represent any specific 529 investment option. Actual investments may include fees, charges and other expenses that would affect an investment's return. It assumes no distributions are made during these periods. Actual results may be significantly different from that shown here. No representation is being made that any account will or is likely to achieve profit or loss. It does not reflect the return of any particular 529 plan investment option, which will fluctuate.

Did you know?

- **529 accounts and financial aid:** 529 assets owned by grandparents and others who are not parents of the student applicant are not included on the Free Application for Federal Student Aid (FAFSA). **Important update:** Beginning with the 2024–2025 school year, distributions from these 529 plans to cover college expenses are no longer considered as part of the "income test" for determining financial aid as part of the FAFSA filing. This is a positive development that increases the potential to receive aid. Consult with a qualified financial aid counselor for more assistance.
- **State-specific taxes:** While much attention is focused on the federal estate tax, certain residents need to know that many states have estate or inheritance taxes. There are a number of states that are "decoupled" from the federal estate tax system. This means they apply different tax rates or exemption amounts. A taxpayer may have net worth comfortably below the ~$13 million exemption amount for federal estate taxes but be well above the exemption amount for their particular state. It's important to consult with an attorney on specific state law and potential options to mitigate state estate or inheritance taxes.

> **Best of all, when contributing to a 529 account even though the money is generally removed from your taxable estate, you retain control over the account.[1]**

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(800) 342-5236

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