

Consider Gifting Education as a Wealth Strategy

By Morgan Kilgore, Assistant Vice President, Private Client Advisor

There's no denying a college education comes with a hefty price tag. Over the past 30 years (after adjusting for inflation), the average sticker price for annual college tuition and fees alone for public two-year schools increased from \$2,310 to \$3,800. For public four-year schools, annual tuition costs climbed from \$4,160 to \$10,740, and from \$19,360 to \$38,070 at private non-profit four-year institutions.¹

It's no wonder that for many families, saving and paying for a child's higher education in our current economic environment is a growing challenge. Yet many Americans who went to college still place a high value on getting an education — and it's important to them to see that trend continue with future generations.

However, the news isn't all bad where college costs are concerned. For example, individuals who step up and help finance a child's education costs may be able to pass along some of their wealth without having to pay gift tax and with the added bonus of reducing potential estate tax.

Three gifting options with win-win situations

The decision to use education gifting as a wealth strategy is personal and unique to each family situation — and it's not reserved for the ultra-wealthy. If you're interested in win-win situations, here are three options to consider.

1. Make unlimited tuition payments directly to the school. Under federal guidelines, tuition payments of unlimited amounts can be made directly to a college or university without triggering any gift taxes. Such tuition payments don't count toward the annual federal gift tax exclusion either. This means you could pay \$50,000 in tuition directly to the school and give a child \$16,000 (\$32,000 for a joint gift) this year under the exclusion limit.

Keep in mind, however, that direct payments can be applied only to tuition costs — other expenses such as room and board, fees, equipment, books, and other miscellaneous charges do not qualify.

The Cost of College These Days

When you add in the costs for room and board along with allowances for books and supplies, transportation, and other expenses to the estimated tuition and fees listed above, the average annual price tag becomes even more jolting to the wallet.

According to The College Board's "Trends in College Pricing 2021," the average annual overall cost for a private four-year school is \$55,800. For public four-year in-state schools, the number is \$27,330; for public four-year out-of-state institutions, it's an estimated \$44,150.¹



Commerce Financial Advisors

Investments • Retirement • Insurance

There are two advantages to this option:

- By paying the educational institution directly, the funds will be spent on what you intended and not on expenses out of your control.
- It's a great way for you to get money out of your taxable estate. There are no tax benefits or tax deductions in the year the donation takes place, but it may lower the amount of your taxable estate.

2. Open or fund an existing 529 plan. Funding a 529 plan for a child's education is another alternative you may want to consider to help draw down your taxable estate. The scope of 529 plans was greatly broadened by the Tax Cuts and Jobs Act of 2017.

There are two ways you can contribute — either a lump sum amount or smaller, regular amounts, for a child's education:

- Open a 529 account and name the child as the beneficiary
- Make contributions to a 529 account that has already been opened for the purpose of funding the child's education.

Perhaps the biggest advantage of a 529 plan is that you can front load it by making a single, lump-sum gift, which is based on five times the current annual gift exclusion amount. For 2022 the annual gift exclusion amounts are \$16,000 per individual and \$32,000 per couple. That means you and your spouse can make a joint gift of up to \$160,000 in the first year rather than spreading your contributions out over a five-year period.

This contribution will not be subject to federal gift tax. However, any additional gifts given to the child during this time period does not qualify for the gift tax exclusion. Also, since direct tuition payments often come in much larger amounts, a 529 plan may not reduce your taxable estate as much as other options, because of 529 funding limits.

There may be another good incentive for you to consider a 529 plan as a wealth strategy. With the passage of the federal tax reform legislation, the guidelines for qualified education expenses for 529 plans were expanded to include tuition contributions of up to \$10,000 per year for grades K-12 and up to \$10,000 in student loan repayments. These payments also do not trigger any gift taxes.

Keep in mind that a child of any relative or friend can be the beneficiary of a 529 plan education gift. However, 529 savings plans are offered by each state — and the features and benefits can vary significantly. As you consider your alternatives for education funding as part of your overall wealth strategy, consult with your tax professional and financial advisor regarding the options, fees, and state tax implications.



Commerce Financial Advisors
Investments • Retirement • Insurance

3. Gift cash or securities. If you decide to help with a child's education by gifting cash or securities, there are a few things you may want to think about before doing so. For example, if you give your grandchild a gift of more than \$16,000 (or \$32,000 for a married couple), it may trigger a gift tax and a generation-skipping transfer (GST) tax. One way to avoid this is to give the cash to the child's parent to save for your grandchild's education. Other alternatives may be more attractive to consider if you are concerned the adult child or parent may not handle your gift responsibly.

Explore other education funding choices

In addition to the strategies discussed above, there are many other education funding choices, guidelines, and rules to consider before you make a decision. It's important to consult with your tax professional and financial advisor to help you evaluate how various savings and investment options could impact your overall financial plan. Contact Commerce Financial Advisors today to explore a number of solutions for gifting education as a wealth strategy.

Commerce does not provide tax advice or legal advice to customers. While we may provide information or express general opinions from time to time, such information or opinions are not offered as professional tax or legal advice. Consult a tax specialist regarding tax implications related to any product and specific financial situation.

This material is intended to provide general information only, may be of value to the reader and audience, and is reflective of the opinions of Commerce Trust Company.

Commerce Trust Company is a division of Commerce Bank. Securities and Advisory services provided through Commerce Brokerage Services, Inc., member FINRA, SIPC, and a registered investment advisor. Insurance products are offered through Commerce Insurance Services, Inc. Both entities are subsidiaries of Commerce Bank.

This material is not a recommendation of any particular security, is not based on any particular financial situation or need, and is not intended to replace the advice of a qualified attorney, tax advisor or investment professional. The information in this commentary should not be construed as an individual recommendation of any kind. Strategies discussed here in a general manner may not be appropriate for everyone.

Diversification does not guarantee a profit or protect against all risk. Past performance is no guarantee of future results, and the opinions and other information in the investment commentary are as of September 22, 2022.

Commerce does not provide tax advice or legal advice to customers. Consult a tax specialist regarding tax implications related to any product or specific financial situation. Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed, and is subject to change rapidly as additional information regarding global conditions may change. All expressions of opinion are subject to change without notice depending upon worldwide market, economic or political conditions.



Commerce Financial Advisors

Investments • Retirement • Insurance

commercebank.com/brokerage

1.800.772.7283

Securities and Advisory services provided through Commerce Brokerage Services, Inc., member FINRA, SIPC, and a registered investment advisor. Insurance products are offered through Commerce Insurance Services, Inc. Both entities are subsidiaries of Commerce Bank.

Not FDIC Insured | May Lose Value | Not Bank Guaranteed | Not Insured by Any Federal Government Agency



Morgan Kilgore, J.D.

Assistant Vice President, Private Client Advisor

Morgan is a private client advisor for Commerce Trust Company. He serves as a consultant and relationship manager providing clients with personalized objective advice and oversight across all our services, including trust administration, financial advisory services, private banking, and investment management. Morgan facilitates all aspects of relationship management for the client team, including administering complex trusts, maintaining client communication, and coordinating with internal and external partners to deliver a superior client experience. Prior to joining Commerce Trust Company, Morgan was a trust officer at UMB. Morgan earned a Bachelor of Arts in Global and International Studies at the University of Kansas with minors in German and Public Policy. Morgan also earned a Juris Doctor from the University of Kansas School of Law with a certificate in Advocacy Skills. Morgan is a member of the Kansas Bar. In his spare time Morgan enjoys spending time with family at Jayhawk sporting events and the lake.



Commerce Financial Advisors

Investments • Retirement • Insurance

commercebank.com/brokerage

1.800.772.7283

Securities and Advisory services provided through Commerce Brokerage Services, Inc., member FINRA, SIPC, and a registered investment advisor. Insurance products are offered through Commerce Insurance Services, Inc. Both entities are subsidiaries of Commerce Bank.

Not FDIC Insured | May Lose Value | Not Bank Guaranteed | Not Insured by Any Federal Government Agency