

Contributions to 529 Plans

By [Gina L. Gwozdz, CPA](#)

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Jake writes:

Dear Gina,

I understand that I can contribute \$22,000 a year or \$110,000 in a 5 year period into a 529 without triggering gift tax. Does \$22,000 a year use up your gift tax to that individual for the year, or is the \$22,000 a year in addition to the normal yearly exemption?

Thanks in advance!

Jake

My response:

Hello Jake!

For 2007 you are allowed to gift any one person up to \$12,000 per year and have that amount excluded from gift tax (an exception to this is gifts of future interest in property). If you happen to be married then both you and your wife can gift \$12,000 per year to one individual and then your total annual gifts to that individual would be \$24,000.

You can use your \$12,000 gift tax annual exclusion when making a contribution to a 529 plan. In addition, if you contribute more than the \$12,000 annual exclusion amount to 529 plans for any particular beneficiary, you are allowed to spread as much as \$60,000 (five times the annual exclusion amount) over five years for gift-tax purposes. This is a special election which is made on your annual gift tax return filed for the year of contribution.

You will not owe any gift taxes if you make **no other gifts** to that individual over the five-year period. If you do make additional gifts (birthday, Christmas, etc.) to this individual then you will be required to report those gifts and they will reduce your cumulative lifetime gift exclusion. So you may want to take that into consideration when you decide how much to contribute each year.

For additional information on 529 Plans visit [Saving for College](#). For additional information on [gift and estate taxes](#) visit the IRS.

Gina L. Gwozdz is a CPA who has chosen to specialize in taxes. Visit her website at <http://GLGcpa.com> to view more Tax Tip Articles.