OppenheimerFunds®
The Right Way
to Invest

529 Plans and Estate Tax Planning

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Use a 529 Plan to Save for College and Save on Estate Taxes

Most investors know that a 529 plan is one of the best ways to save for a child's college expenses. But did you know a 529 plan is also one of the best ways to help reduce your estate tax burden?

In addition to the education savings benefits, 529 College Savings Plans have the potential to double as an important estate planning tool. Special rules that apply to 529 plans allow parents and grandparents to save for a child's higher education while simultaneously reducing their taxable estate. Best of all, the account owner always retains control of the assets, unlike with most other estate-planning vehicles.

Key Considerations

When considering whether to use a 529 plan in your estate plan, keep in mind the following key points:

An individual may contribute up to $15,000 a year ($30,000 for a married couple) per beneficiary without triggering the federal gift tax.[1]

Special gift and estate tax treatment allows an individual to contribute up to $75,000 ($150,000 for a married couple) in one lump sum, per beneficiary, free of federal gift taxes (i.e., five times the annual gift tax exclusion), under a provision known as "accelerated gifting."

For estate planning purposes, the Internal Revenue Service considers assets held in a 529 account as a completed gift and therefore treats them as the beneficiary's assets and NOT the account owner's.

529 plan contributions and investment earnings may be withdrawn federal income tax free if the money is used for Qualified Higher Education Expenses (QHEE).[2]

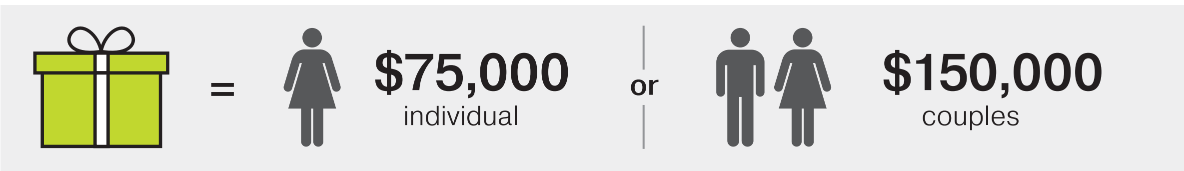
The 529 account owner maintains complete control over account assets and is allowed to make beneficiary changes or even discontinue the account and take the money back.[2]

Types of Vehicles Used for College Funding and Tax Implications			
Product	**Tax Implications**	**Account Control**	**Financial Aid Impact**
529 Plan	Tax-free growth and withdrawals as long as they are used for qualified higher education expenses.	Owner-driven account.	Parental Assets: 5.6% weight in FAFSA calculations.
IRA Traditional (pre-tax)	Tax-deductible contributions. Tax-free growth. Taxed on distributions.	Parental-owned account. No income limit unless you participate in an employer-sponsored 401(k) plan.	Retirement assets are not counted in FAFSA calculations; however, distributions could spike income.
IRA ROTH	After-tax contributions. Tax-free growth. Possible tax-free withdrawals.*	Parental-owned account. No income limit unless you participate in an employer-sponsored 401(k) plan.	Retirement assets are not counted in FAFSA calculations; however, distributions could spike income.
UGMA/UTMA	Higher balances could potentially be tax unfriendly.	Yield control of account to the child at age of majority. Account may be invested in various vehicles.	Student's Assets: 20% weight in FAFSA calculations.
Coverdell Education Savings Account	Tax-free growth, but $2,000 maximum annual contribution limit.	Remains a custodial account until the beneficiary turns 30 years old.	Parental Assets: 5.6% weight in FAFSA calculations.

* Visit IRS.gov for more information.

Accelerated Gifting

Accelerated gifting is a special provision of 529 plans that permits a contributor to aggregate five years of contributions (the current year plus four future years) in a single year. This allows a gift of up to $75,000 for an individual contributor or $150,000 for couples filing jointly, or five times the current annual gifting limit, per beneficiary. However, no additional gifts may be made until five years have passed.



If an individual or married couple makes an accelerated gift in an amount less than the allowed maximum, additional contributions, up to the maximum allowable amounts, may be made in subsequent years within the five-year time frame for accelerated gifting without triggering the federal gift tax.

Under the accelerated gifting provision, the size of the donor's taxable estate is reduced by the amount of the accelerated gift.

For tax-planning purposes, it is important to note that if your contributions to a 529 plan for a child or grandchild, combined with all other gifts you may give to that child in any given year, exceed the $15,000 annual exclusion, you must file a Gift Tax Return (Form 709) and compute any gift tax and generation-skipping transfer tax.

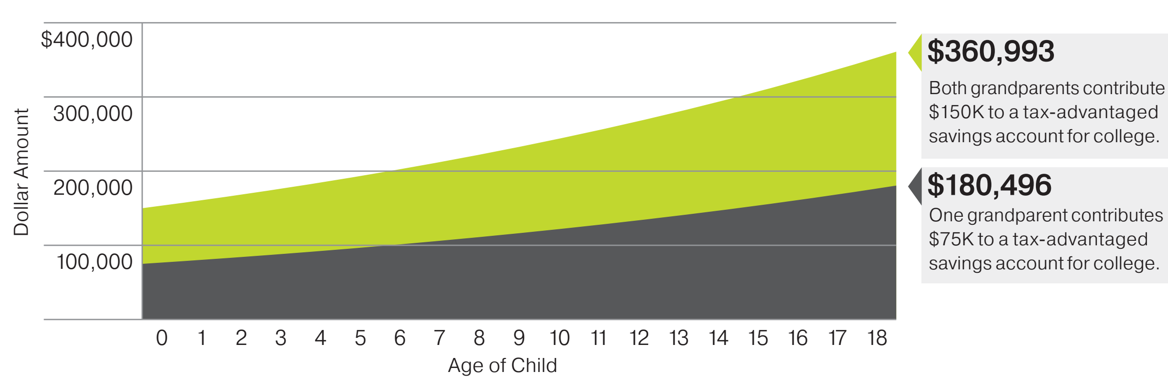
The following example demonstrates the provisions of accelerated gifting.

Accelerated Gifting — John's Story

The moment John first saw his grandson, he decided to open and begin funding a 529 College Savings Plan to help pay for his grandson's future higher education expenses. At the same time, John had just started estate planning and was looking for ways to remove assets from his estate and gain tax advantages. John chose to forward-fund his grandson's 529 plan and used accelerated gifting to contribute the maximum allowable five-year gift of $75,000. After 18 years, and assuming a 5% annual rate of return, John's initial $75,000 investment could generate $180,496 for his grandson's college education. John also would have succeeded in reducing his taxable estate by $75,000.

If John's wife had joined him in making the same maximum contribution under the accelerated gifting provision, their combined $150,000 investment would have yielded $360,993 (based on a 5% annual return assumption) for their grandson's college education expenses, while also reducing their taxable estate by $150,000.[3]

Making Five Years of Gifts in a Single Year [4]



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A Gift for Them … and You

- Small gifts can be just as important as big gifts. How many times have relatives and friends asked what to give a child for his or her birthday, graduation or other special occasion? What better gift than an education?
- Mark a child's milestones and achievements by showing that you value education. Helping underwrite the high cost of higher education is much more valuable in the long run than giving the latest toys and games as gifts.

For more information on the benefits of using a 529 plan as part of your estate planning strategy, talk to your financial advisor about establishing and investing in a 529 Education Savings Plan.

1. The gift-tax exclusion applies, provided the 529 account owner makes no other gifts to the beneficiary during a five-year period. Contributions between $15,000 and $75,000 ($30,000 and $150,000 for married couples filing jointly) made in one year may be prorated over a five-year period without subjecting the donor(s) to federal gift tax or reducing his/her federal unified estate and gift tax credit. If an individual contributes less than the $75,000 maximum ($150,000 for married couples filing jointly), additional contributions may be made without subjecting the donor to federal gift tax, up to a prorated level of $15,000 ($30,000 for married couples filing jointly) per year. 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. If the account owner dies before the end of the five-year period, a prorated portion of contributions between $15,000 and $75,000 ($30,000 and $150,000 for married couples filing jointly) made in one year may be included in his or her estate for estate tax purposes. Please consult your tax and/or legal advisor for further guidance.
2. Non-qualified withdrawals from a 529 plan are subject to income tax and a possible 10% federal penalty on the earnings portion of the account.
3. If an account owner utilizes the special five-year lump sum exclusion and dies within five years of the funding date, the portion of the contribution allocable to the years remaining in the five-year period (beginning with the year after the account owner's death) would be included in the account owner's estate for federal estate tax purposes. Consult your tax advisor for more information.
4. This chart from OppenheimerFunds, Inc., January 2018, is for illustrative purposes only. This hypothetical illustration assumes an initial investment and a second investment up to the maximum before gift tax penalties apply and a 5% annually compounding rate of return. The illustration does not represent the performance of any specific investment and does not reflect any plan fees or sales charges that may apply. If such fees or sales charges had been taken into account, returns would be lower.

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Some states offer favorable tax treatment to their residents only if they invest in the state's own plan. Investors should consider before investing whether their or their designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program, such as financial aid, scholarship funds, and protection from creditors. Any state-based benefit offered with respect to a particular 529 College Savings Plan should be one of the many appropriately weighted factors considered in making an investment decision. You should consult with your tax or other advisor to learn more about how state-based benefits (including any limitations) would apply to their specific circumstances. In addition, some states may offer an income tax deduction to any qualified tuition programs. These securities are neither FDIC insured nor guaranteed and may lose value.

Before investing in a plan, investors should carefully consider the investment objectives, risks, charges and expenses associated with municipal fund securities. Plan disclosure documents contain this and other information about a plan, and may be obtained by asking your financial advisor, visiting oppenheimerfunds.com or calling 1 800 CALL OPP (225 5677). Investors should read these documents carefully before investing.

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