

## Tax-free Wealth Transfer by Prepaying Tuition

*by A. Scott White, CFP®, ChFC, CLU  
President, Scott White Advisors*

For most individuals, the standard estate tax (\$3.5 million) and lifetime gift tax (\$1 million) exemptions are sufficient to protect your assets from estate tax. When combined with a qualified 529 savings plan for educating your heirs, you may feel quite comfortable about your ability to pass your wealth to the next generation. However, if the value of your estate is higher than the exemption amounts and you're looking for a faster-paced solution, prepaid tuition might help.

There are a couple of different approaches to using this tax-free wealth transfer alternative. One is to prepay the tuition for a designated beneficiary at a private higher-ed institution; the other is to prepay tuition through a state institution, also for a designated beneficiary. Either way, you can save gift and generation skipping taxes by paying for your descendants' education now.

Some common features of prepaid tuition include:

- Exempt from gift tax on any amount paid on behalf of an individual as tuition at educational institution (as described by the Internal Revenue Service code).
- Exempt from any generation-skipping transfer (GST) tax.
- Generally excludes room and board, books and supplies or other education-related expenses.
- Does not guarantee admission, enrollment or special privileges for beneficiary.
- Can lock in tuition at today's costs
- Can still make use of the annual exclusions (and exemptions) to make additional gifts to heirs.

In the case of private educational institutions, you would prepay tuition at today's rates and future increases would be paid by the beneficiary or another party. However, the prepayments are non-refundable—the institution would get the money in the event the beneficiary attends another school, transfers elsewhere or drops out. A number of state education institutions offer prepaid tuition plans and they have a few more advantages than those at private colleges or universities. For example, they generally offer refunds of the amount invested, although without interest.

As always, your best bet is to consult a professional financial planner and tax expert to assist in finding the most flexible and advantageous plan for your individual situation.

*Scott White is a certified financial planner, a chartered financial consultant, a chartered life underwriter, and holds a master's degree in business administration. Email Scott White at [scott@scottwhiteadvisors.com](mailto:scott@scottwhiteadvisors.com)*