

# College financing may be an integral part of your estate plan

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The staggering cost of college makes it critical for families to plan carefully for this major expense, and in many cases grandparents want to play a role. As you examine the many financing options for your grandchildren, be sure to consider their impact on your estate plan.

## Make direct payments

A simple, but effective, technique is to make tuition payments on behalf of your grandchild. So long as you make the payments *directly* to the college, they avoid gift and generation-skipping transfer ("GST") tax without using up any of your \$11.4 million gift or GST tax exemptions or your \$15,000 annual gift tax exclusion.

A disadvantage of direct payments is that, if your grandchild is young, you have to wait until the student has tuition bills to pay. So there's a risk that you'll die before the funds are removed from your estate.

## Draft a grantor trust

Trusts offer several important benefits. For example, a trust can be established for one grandchild or for multiple beneficiaries, and assets contributed to one, together with future appreciation, are removed from your taxable estate. In addition, the funds can be used for college expenses or for other purposes. Furthermore, if the trust is structured as a "grantor trust" for income tax purposes, its income will be taxable to you, allowing the assets to grow tax-free for the benefit of the beneficiaries.

On the downside, for financial aid purposes a trust is considered the child's asset, potentially reducing or eliminating the amount of aid available to him or her. So keep this in mind if your grandchild is hoping to qualify for financial aid.

## Explore all of your options

Other college financing options include Section 529 college savings and prepaid tuition plans, savings bonds, retirement plan loans, Coverdell Education Savings Accounts, and various other tax-advantaged accounts. If you'd like to learn more about your options to help fund your grandchild's education expenses, please contact us.

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