

What To Do With That Unused Travel Budget - Financial Planning

As millions of Americans stayed home during the pandemic and traveled nowhere as hotels, resorts, and restaurants closed, budgets created for travel and vacation went idle. Many are still deterred, if not discouraged, to travel in fear of another virus outbreak or simply out of paranoia. Travel has become a bit more complicated and burdensome, especially for the elderly who just don't travel as easily as during their younger years.

With inflation the topic of concern, higher educational costs are an issue for recent grads. A consideration might be to migrate some of the idle funds in the travel budget to a grandchild's college saving's plan, such as a 529.

Named after the IRS Code it falls under, Section 529 plans have amassed over \$425 billion in assets since their inception in 1997. Their popularity soared over the years as parents and grandparents realized their favorable tax benefits while also saving for college expenses.

These plans offer two primary benefits: assets grow tax deferred and come out tax free for qualified expenses; and contributions made by parents and grandparents are considered a gift, thus proving a tax benefit for some contributors. Over the years, both wealthy and lower-income parents and grandparents have been the main contributors to these plans.

Any parent or grandparent can make gifts of up to \$15,000 per year per individual person (child) and to as many individuals as they wish. Section 529 plans allow gifts to be made five years ahead all at once. Thus, a grandparent can gift \$75,000 per grandchild at once for the next five years. If the grandparent has five grandchildren, then they have the ability to contribute \$375,000 at once to the 529 plans, which are considered gifts. There would be no gift tax, assuming no other gifts were made to that child over those years.

Such generous contributions allow a reduction in the contributor's taxable estate. This is an ideal strategy for parents and grandparents that may have estates valued at over \$11.7 million, the current federal estate tax exemption level. The federal estate tax exemption, that's the amount an estate can leave to heirs without having to pay federal estate tax, is \$11.7 million for 2021.

Source: www.irs.gov/businesses/small-businesses-self-employed/estate-tax

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