

Can I Open a 529 Account in Anticipation of My Future Grandchild?

By Tom Posey, Posey Capital Management Inc.

Technically, no – but practically, yes. You can't open a Section 529 account for a child who hasn't been born yet because the beneficiary of the Section 529 account must have a Social Security number. The Social Security Administration doesn't issue a Social Security number until after a child is born.

You can, however, open a Section 529 account for another family member and then change the beneficiary to the grandchild after he or she is born. To illustrate, you might open the account naming as the beneficiary your son or daughter (that is to say, your grandchild's parent). You can change the beneficiary to your grandchild when you receive his or her new Social Security number.

Now for the technicalities. Be careful whom you choose as the initial beneficiary of the Section 529 account. IRS Publication 970, Tax Benefits for Education, provides that there are no income tax consequences if the beneficiary of a 529 plan account is changed to a family member of initial the beneficiary. A *family member* includes the initial beneficiary's (1) son, daughter, stepchild, foster child, adopted child or descendant of any of them, (2) spouse, (3) sibling or step-sibling, (4) parent or ancestor of either, (5) step-parent, (6) niece or nephew, (7) aunt or uncle, (8) daughter-in-law, son-in-law, mother-in-law, father-in-law, sister-in-law, or brother-in-law, (9) the spouse of any person listed, and (10) first cousin. It's easy if you make the initial beneficiary the grandchild's natural or adoptive parent, but if you get any more complicated than that, be sure to read the rules with care.

Also take care choosing the 529 account provider. Some providers impose age restrictions. For example, some providers rule out beneficiaries over age 21, which could be a problem if you want to name your adult son or daughter as the initial beneficiary. As another illustration, some providers require the funds in the 529 account to be spent within 10 years after the initial beneficiary would be expected to enter college. And don't forget that costs and investment choices in 529 accounts vary. Higher costs, and poorer investment choices, mean lower returns in the account and less money available for college.

Finally, note that while changing the beneficiary to your grandchild, if properly done, has no *income tax* consequences, it may have *gift tax* consequences if the balance in the account is more than the annual gift tax exempt amount. Currently the annual gift tax exempt amount is \$13,000 per year, per donor, per donee. If you're making a gift in excess of this amount, you'll want to visit with estate planning counsel or a qualified financial advisor before making the gift.