



## Give the Gift of Learning to Your Grandchildren

It's that time of year! Wish lists full of toys, games, and gadgets are being carefully drawn up by kids – and grown-ups – as the holiday season fast approaches. But how many of those items will provide just a few weeks or months of enjoyment?

This year, consider narrowing the toy selections down to a few favorites and invest instead in a child's future education. While such a gift does not provide immediate gratification to your grandchildren, when it comes time to pay for college, they will be able to look back and recognize the importance of the gift.

In addition to helping your grandchildren and other loved ones get a good start in life, gifting some of your assets towards their future education can reduce the size of your taxable estate and the tax that could be due upon your death. In 2023, the "annual exclusion amount" for gift tax purposes is \$17,000. This means that you can give \$17,000 a year to any individual without any gift tax implications. While these gifts are not counted as taxable income to the recipient, if invested, the earnings on any gifted money will be taxable.

If you want more control over how your gift money is used in the future and wish to give more than \$17,000, you can pay for your grandchild's tuition costs directly. Gifts structured this way can be in addition to the annual exclusion gift.

Another option to fund a child's education while still maintaining control is by using a 529 account. The account can be set up in your own name and the money can be withdrawn by you at any time. However, only qualified expenses for education, such as tuition, books, and housing are able to be withdrawn tax-free. All other withdrawals will be subject to income tax as well as a 10% penalty. Other advantages to a 529 plan are that earnings in the account grow tax-deferred and withdrawals are not subject to federal or state income tax when used for qualified education expenses. In Pennsylvania you can receive a state (but not federal) deduction for your contributions up to \$17,000 (or \$34,000 if married filing jointly). In addition, unlike other states, the plan is not a countable resource under Pennsylvania Medicaid rules, and it is not subject to Pennsylvania inheritance tax at your death. You can find more detailed information about Pennsylvania 529 plans at [www.pa529.com](http://www.pa529.com)

It is important to keep in mind that gifting is considered a transfer of asset that could interfere with your future Medicaid eligibility should you need assistance paying for your long-term care.

Gifts that are given within five years of an application for Medicaid fall within the look-back period and must be considered by the state in your application. Our of our lawyers can help you develop a gift strategy tailored to your family needs.

Education can be the most important thing you can ever give to the children you care for, ensuring they are provided with the opportunity to follow their passions and succeed in the future. Enjoy this holiday season knowing you can give a long-lasting legacy to your grandchildren.

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