Gift and Estate Tax Rules for 529 Plan Contributions

How Gift and Estate Taxes Affect 529 Plan Contributions

Gifting money or property during your lifetime may trigger federal gift tax—and possibly state gift tax as well. The federal gift tax generally applies when a gift exceeds the annual exclusion amount, which is $19,000 per recipient in 2026. Certain exceptions, such as gifts to your spouse, are not subject to this tax.

If your contributions exceed the annual exclusion, the excess counts against your lifetime gift tax exemption, which is $15 million for individuals and $30 million for married couples, and applies to both lifetime gifts and assets transferred at death.

Keep in mind that states set their own maximum contribution limits for 529 plans, and their estate laws may differ from federal regulations. Confirm your state's rules before making contributions to avoid unintended tax implications.

529 Plan Contributions as Taxable Gifts

A contribution to a 529 plan is considered a gift from the donor to the account's beneficiary and therefore qualifies for the annual federal gift tax exclusion.

For example, if you contribute $30,000 to your child's 529 plan in a single year, you must report the entire $30,000 on federal gift tax return. However, only $11,000 would be taxable because the first $19,000 qualifies for the annual tax exclusion in 2026. You would not owe gift tax until you have used up your lifetime gift tax exemption of $15 million.

Contributing a Lump-Sum

If you would like to contribute more than the annual exclusion amount in a single year, you can use the five-year election, often called the *lump-sum rule*. This option allows you to contribute up to five times the annual exclusion in a given year ($95,000 in 2026) and elect to spread the gift evenly over five years. By doing so, you can avoid federal gift tax, provided no other gifts are made to the same beneficiary during the five-year period.

If you contribute more than $95,000 ($190,000 for joint gifts) to a beneficiary's 529 plan in one year, the excess is treated as a gift in the year of contribution and counts toward the lifetime gift tax exemption.

Grandparent Contributions and Generation-Skipping Tax

When a grandparent contributes to a child's 529 plan, the federal generation-skipping transfer tax (GSTT) may apply. The GSTT is an additional tax on transfers made during life or at your death to someone more than one generation below you, such as a grandchild.

The GSTT exemption ($15,000,000 in 2026) works similarly to the lifetime gift tax exemption. No GSTT will be due until you've used up your applicable exclusion amount. Grandparents may also take advantage of the five-year election (lump-sum rule) when making contributions.

What Happens if the 529 Account Owner Dies?

If the owner of a 529 account dies, the account is included in the owner's estate. The terms of the 529 plan determine who becomes the new account owner. Some states allow the original owner to name a contingent account owner, who assumes all rights upon the owner's death. In other states, ownership passes to the designated beneficiary.

An important exception applies if the owner elected the five-year rule and dies before the five-year period ends. In that case, the portion of the contribution allocated to years after death is included in the owner's federal gross estate.

For example, if you contribute $75,000 to a 529 savings plan in year one and elect to spread the gift over five years, but you die in year three, the allocations for the first three years ($15,000 each) are excluded from your estate. However, the remaining $30,000 would be included in your gross estate.

What Happens if the 529 Beneficiary Dies?

If the designated beneficiary of a 529 account dies, the plan's terms determine who receives the account. Generally, the account owner retains control and may name a new beneficiary or withdraw the funds.

If the owner chooses to withdraw the balance, the earnings portion of the withdrawal is subject to income tax, but no penalty applies when the account is terminated due to the beneficiary's death.

If the beneficiary dies with a remaining balance, that amount may be included in the beneficiary's taxable estate.

Sources:

https://www.irs.gov/pub/irs-pdf/p970.pdf

https://www.nolo.com/legal-encyclopedia/529-plans-for-estate-planning.html

Resource written by the CAPTRUST wealth planning team.