

By Karin Price Mueller

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Q. I want to contribute from my checking account here in New Jersey to my grandson's already-established 529 account based in Colorado. I'm interested in having funds automatically deducted monthly from my account and sent to that account. I'm assuming that contributing directly to the Colorado account is better than my opening a new account? Is that so?

-- Granny

A. You have a lot of options here.

First, you can contribute directly to your grandson's existing 529 account if you would like to do so. You may also open a new account in his name.

But it's probably less administratively burdensome to simply contribute to the existing account, said Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains.

She said you can gift a maximum of \$14,000 per year per person without having to worry about gift tax implications.

"You may put up to \$14,000 in your grandson's 529 account in one year -- based on current tax laws -- without incurring any gift tax," she said. "If you are married, you and your spouse are permitted to 'gift-split,' which means you could each contribute \$14,000 to his 529 plan for a total of \$28,000 per year."

Section 529 plans are a unique vehicle in that they permit a donor to put in five years' worth of the annual gift tax exclusion -- a maximum of \$70,000 -- in one year without incurring any negative gift tax implications, Aznar said.

"If you do this, you are required to file an informational gift tax return (Form 709) to notify the IRS of your intention to use the five-year election," she said. "And if you do take advantage of this opportunity, you are not able to gift to this individual for that five-year period if you want to do so with no gift tax implications."

Once the five-year period has passed, you may begin gifting again.

If you are not comfortable with the investment options offered within the Colorado plan and like a different plan more, you could certainly set up another 529 plan up for your grandson, she said.

It's important to keep in mind that the Colorado 529 plan does have a maximum contribution amount.

"You can contribute on behalf of a beneficiary until the total balance of all CollegenInvest 529 plan accounts held for the same beneficiary reaches an aggregate maximum balance, which is currently \$400,000," Aznar said. "This includes accounts held in the CollegenInvest Direct Portfolio College Savings Plan, Smart Choice College Savings Plan and Stable Value Plus College Savings Plan."

Email your questions to Ask@NJMoneyHelp.com.

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