



D.A. DAVIDSON

Education Savings Options

Comparisons based on 2023 IRS tax regulations

Education savings may be an important part of your financial plan. Work with your financial professional to determine which options will fit best into your overall strategy.

RULES	529 Plan	Coverdell Education Savings Accounts ¹	UGMA/UTMA
Federal Income Tax	Non-deductible contributions. Withdrawn earnings excluded from income to extent of qualified education expenses.	Non-deductible contributions. Withdrawn earnings excluded from income to extent of qualified education expenses.	Non-deductible contributions. Earnings and gains taxed to minor. First \$1,250 of earnings is tax-exempt. Earnings between \$1,250 and \$2,500 are taxed at the minor's rate. Earnings over \$2,500 for certain children under age 24 are taxed at rates for estates and trusts.
Federal Gift Tax Treatment	Contributions treated as completed gifts. Apply \$17,000 annual exclusion, or up to \$85,000 with 5-year election. ²	Contributions treated as completed gifts. Apply \$17,000 annual exclusion.	Transfers treated as completed gifts. Apply \$17,000 annual gift exclusion.
Federal Estate Tax Treatment	Value removed from donor's gross estate, partial inclusion for death during a 5-year election period.	Value removed from donor's gross estate.	Value removed from donor's gross estate unless donor remains as custodian.
Maximum Contribution	Established by the program; many in excess of \$400,000 per beneficiary.	\$2,000 per beneficiary per year combined from all sources.	No limit.
Qualified Expenses	Tuition, fees, books, computers and related equipment, supplies, special needs, and some room and board at eligible colleges and universities; costs of apprenticeship programs; up to \$10,000 per year in tuition expenses at private, public and religious K-12 schools; up to \$10,000 in student loan payments for the beneficiary and each of the beneficiary's siblings. ⁴	Tuition and fees for qualified elementary and secondary education expenses or qualified higher education expenses. ³	N/A – This account is not education specific; however, monies must be used solely for expenses for the minor.
Able to Change Beneficiary	Yes, to another qualified member of the beneficiary's family.	Yes, to another qualified member of the beneficiary's family.	No, contributions are an irrevocable gift to the minor.
Time/Age Restrictions	None unless imposed by the program.	Contributions allowed only until beneficiary reaches age 18. Account proceeds generally must be distributed by age 30.	Custodianship generally terminates when minor reaches age of majority established under state law (generally 18 or 21).
Income Restrictions	None.	Ability to contribute phases out for incomes between \$190,000 and \$220,000 (joint filers) or \$95,000 and \$110,000 (single).	None
Federal Financial Aid Implications	Limited, depending on who is the owner of the account. Counted as asset of parent if owner is parent or dependent student.	Limited, depending on who is the owner of the account. Counted as asset of parent if owner is parent or dependent student.	Significant. Counted as student's asset.
Investments	Menu of investments is developed by the program and generally limited to mutual fund-like investments.	Broad range of securities and certain other investments.	Broad range of securities and certain other investments as permitted under state laws.
Use for Non-Qualifying Expenses	Withdrawn earnings subject to federal income tax and 10% penalty. Additional state taxes and penalties may apply.	Withdrawn earnings subject to federal income tax and 10% penalty. Additional state taxes and penalties may apply.	N/A – This account is not education specific; however, monies must be used solely for expenses for the minor.
Who Can Invest	Anyone (relative or non-relative) who is a U.S. citizen or resident alien.	Anyone (relative or non-relative) who is a U.S. citizen or resident alien.	Anyone (relative or non-relative) who is a U.S. citizen or resident alien.

Sources: [savingforcollege.com](https://www.savingforcollege.com), [finra.org](https://www.finra.org), [leggmason.com](https://www.leggmason.com)

¹ Tax-free rollover from Coverdell to 529 is allowed.

² Investors should consult with a tax advisor before establishing an accelerated transfer to a 529 plan.

Investors should carefully consider investment objectives, risks, charges and expenses of any 529 plan. This and other important information is contained in the fund prospectuses, summary prospectuses and program disclosure, which can be obtained from your financial advisor and should be read carefully before investing. Depending on your state of residence, there may be an in-state plan that provides state tax and other state benefits. Before investing in any state's 529 plan, investors should consult a tax advisor.

³ Currently Coverdell accounts can be used for K-12 expenses but have smaller contribution amounts and income limits.

⁴ Not all states have accepted K-12 expenses as qualified. Home schooling is not included. Distributions of \$10,000 per student each year is federal tax free. At the state level, many states will need to take legislative action to enable the expansion of 529 qualified distributions and, if applicable, state tax incentives. Otherwise, the 529 withdrawal for K-12 tuition may be considered a non-qualified distribution subject to state tax recapture of any state income tax deduction previously taken. Consult with your tax advisor before making a withdrawal for K-12 tuition or before making a contribution intended to be used for K-12 tuition. Also, contact the 529 plan provider, review the plan provider's website and read the plan's disclosure statements for announcements related to this issue.

D.A. Davidson does not provide tax or legal advice. Please consult with your tax and/or legal professional for guidance on your specific situation.