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529 Plans vs. Coverdell Education Savings Accounts

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Question	529 Plan	Coverdell ESA
What is the maximum contribution limit?	Varies by state. Lifetime contributions are typically over \$300,000.	\$2,000 per year
Is your ability to contribute based on your adjusted gross income (AGI)?	No	Single filers can make a full contribution if modified adjusted gross income (MAGI) is less than \$95,000 (a partial contribution is allowed if MAGI between \$95,000 and \$110,000). Joint filers can make a full contribution if MAGI is less than \$190,000 (a partial contribution is allowed if MAGI between \$190,000 and \$220,000).
Can the account stay open indefinitely?	Varies by state and type of 529 plan. Prepaid tuition plans usually have a limit; most college savings plans don't.	No, cannot exist for any beneficiary 30 or older, unless the beneficiary is a special needs child. Also, contributions aren't allowed after the beneficiary turns 18, unless the beneficiary has special needs.
Do you get a federal income tax deduction for contributions?	No	No
Are qualified withdrawals (those used for the beneficiary's education expenses) exempt from federal income tax?	Yes	Yes. Qualified education expenses also include elementary and secondary school expenses.
Are withdrawals subject to federal income tax and penalty if not used for qualified education expenses?	Yes (earnings portion only) ¹	Yes (earnings portion only) ¹
Do contributions have federal gift tax consequences?	No, for contributions up to the annual gift tax exclusion. ² Additional gifts made to the beneficiary outside the 529 plan may trigger gift tax.	No, maximum contribution allowed per year is less than the annual gift tax exclusion. However, additional gifts made to the beneficiary outside the Coverdell ESA may trigger gift tax.
Are you free to change the beneficiary?	Yes, if you are the account owner. No penalty applies if the new beneficiary is a qualified member of the prior beneficiary's family. ³	Depends on trustee's policies, but generally yes. No penalty applies if the new beneficiary is a qualified member of the prior beneficiary's family and is not over age 30 when the change is made.

Can you choose your own investments?	Varies by state and type of 529 plan. Prepaid tuition plans generally don't let you choose your investments; college savings plans may give you limited chances to choose from several pre-established portfolios.	Yes, choices are virtually unlimited.
Can you roll over your account to a new one?	A penalty-free "same-beneficiary" rollover to a different 529 plan is allowed once every 12 months. You may also do a rollover anytime the beneficiary is changed. Any rollover must be done within 60 days to avoid tax and penalty.	Unlimited trustee-to-trustee transfers allowed. For distributions received, one rollover allowed every 12 months to a different Coverdell ESA (must be done within 60 days to avoid tax and penalty).
What is the federal financial aid impact?	A 529 plan is considered a parental asset if the parent is the account owner, and assessed at 5.6% per year. Distributions from a parent-owned 529 plan are not counted as parent or student income.	Same treatment as 529 plans. A Coverdell ESA is considered a parental asset if the parent is the account owner, and assessed at 5.6% per year. Distributions from a Coverdell ESA are not counted as parent or student income.

¹A 10% federal penalty is assessed on the earnings portion of all nonqualified withdrawals from a 529 plan and a Coverdell ESA. The penalty generally doesn't apply to nonqualified withdrawals made due to the beneficiary's death, disability, or receipt of a tax-free scholarship (to the extent of the scholarship's value).

²The annual gift tax exclusion is currently \$14,000. However, you may contribute up to \$70,000 to a 529 plan in one year (for the same beneficiary) and not owe gift tax if you elect to spread the gift over a five-year period and you make no additional gifts to the beneficiary during that period.

³Qualified family members include children and their descendants, stepchildren, siblings, stepsiblings, parents, stepparents, nieces, nephews, aunts, uncles, first cousins, and in-laws of the original beneficiary.

Note: Investors should consider the investment objectives, risks, charges and expenses associated with 529 plans carefully before investing. More information about 529 plans is available in the issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.

The availability of the tax or other benefits mentioned above may be conditioned on meeting certain requirements.

This material does not constitute the rendering of investment, legal, tax or insurance advice or services. It is intended for informational use only and is not a substitute for investment, legal, tax, and insurance advice. State, national and international laws vary, as do individual circumstances; so always consult a qualified investment advisor, attorney, CPA, or insurance agent on all investment, legal, tax, or insurance matters. The effectiveness of any of the strategies described will depend on your individual situation and on a number of other factors.

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A Registered Investment Advisor

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