

# Popular Ways to Save for College

Below are the important differences between three popular ways to save for college: 529, Coverdell ESA, and a gift account that is not education-specific. We find the **529 account** is the best option for most people, especially if your state offers tax benefits.

	529 Account	Coverdell ESA	UGMA/UTMA gift account
<b>Federal Tax Advantages</b>	Earnings in either type of account are federal income tax-free when used for qualified education expenses. ✓	✓	Child gets deduction on first \$1,050 of income. The next \$1,050 is taxed at child's rate. Any income above \$2,100 is taxed at the parents' highest marginal rate.
<b>Financial Aid Treatment</b>	A parent-owned account of either type is reported as a parent asset on FAFSA. If owned by grandparent, it is not included in FAFSA. (These are both favorable treatments.) ✓	✓	Reported as a child asset on FAFSA. (Unfavorable)
<b>State Tax Deduction for Contributions</b>	Some states. Ohio offers tax credit of up to \$2,000 (very favorable). ✓	No tax deductions.	No tax deductions.
<b>Beneficiary Limitations</b>	Can change beneficiary. No age restrictions. ✓	Can change beneficiary. Beneficiary must be under 18 during contribution phase, and the funds must be withdrawn by age 30.	No beneficiary changes allowed. Child gains full control of account at age of majority (18-21 depending on state).
<b>Contribution Limits</b>	\$14,000/year, per federal gift tax rules. Some states limit lifetime contributions to \$200,000 per beneficiary. ✓	\$2,000 annual limit.	\$14,000/year, per federal gift tax rules. Contributions are irrevocable. ✓
<b>Income Limitations</b>	No income limit. ✓	Limited to married couples making <\$200k/year and single parents making <\$110k/year for 2017.	No income limit. ✓
<b>Investment Flexibility</b>	Choose from the selection provided by each state-specific plan. Investment changes limited to twice a year.	Open at broker of your choice and invest, buy, and sell as you like. ✓	Open at broker of your choice and invest, buy, and sell as you like. ✓
<b>Qualified Expenses</b>	Qualified college expenses.	Qualified elementary, high school, or college expenses.	Any use at all. Child gains full control of funds at 18-21.