

# Compare: 529 Plans vs. Coverdell ESAs

	529 plans	Coverdell Education Savings Account (formerly Education IRA)
Federal taxation of account earnings	Tax-exempt when used for qualified higher education expenses	Tax-exempt when used for qualified education expenses (including secondary education expenses)
Income limits	None	Phases out at \$110,000 for single filers and \$220,000 for joint filers
Maximum account balance	Depends on state plan	\$2,000 annually
Control of assets	Account owner retains control of Account owner controls assets and can choose to change the account beneficiary or revoke the assets through a nonqualified withdrawal	Controlled by the custodian named on the account, but must be used for the benefit of the named minor. Assets will be transferred to the beneficiary at age 30
Ability to change beneficiaries	Can be changed to a qualified family member of the current beneficiary without adverse federal tax consequences	Can be changed to a member of the family of the current beneficiary if the right to do so is established when the account is opened
Revocability of assets	Assets are revocable (consult the individual plan descriptions for complete information about nonqualified withdrawals)	Assets must be used for the beneficiary. Any remaining balance will be transferred to the beneficiary at age 30, subject to taxes and penalty
Investment options	Typically multiple investment options available, from conservative to aggressive, including both asset allocation and customized portfolio options	May invest in any security with the exception of life insurance contracts
Penalty for nonqualified withdrawals	Subject to federal and possibly state income tax and a 10% penalty on earnings	Subject to federal and possibly state income tax and a 10% penalty on earnings
Estate planning benefits	Account assets are removed from account owner's estate	Assets are generally removed from donor's estate
Impact on federal needs-based student aid	Treated as assets of the account owner, not the beneficiary (if the parent is account owner, assessed at 6.5% maximum)	Assets considered to be student's (where student is the beneficiary); assessed at 35%
Gift tax treatment	Gifts of up to \$55,000 (\$110,000 for married couple) qualify for federal gift tax exclusion, provided no other gifts are given to the beneficiary over the ensuing five years	Qualifies for the annual \$11,000 gift tax exclusion