Saving for college options:

Personal investment accounts:

- Anyone can save for college with a personal investment account.
- There is no limit to the amount that can be saved.
- The account owner has control of the money.
- The money can be used for anything the account holder wishes.
- Income is taxed at the account holder's rate, and distributions may create capital gains depending on the investment.
- Personal investment accounts may impact financial aid eligibility.

Custodial accounts (UGMA, UTMA):

- Anyone can open a custodial account for a child.
- There is no limit to the amount that can be saved.
- The custodian has control of the account until the child is of legal age.
- Money can only be taken from the account to benefit the child.
- Investment income is tax-free up to $1,100, taxed at the child's rate for the next $1,100, and taxed at the parent's rate thereafter (a.k.a. the "kiddie tax").
- Custodial accounts affect financial aid more than parent's investments.

Coverdell education savings accounts (ESA):

- Taxpayers with income over $110,000 (single) and $220,000 (married) can not contribute.
- Investment vehicle is the account owner's choice.
- Contribution is limited to $2,000 per year up to age 18 of the child.
- The account owner has control of the account until the legal age of the child.
- Funds can be withdrawn for expenses of primary and secondary education, as well as college.
- Withdrawals are not subject to Federal tax as long as they are used for qualified education.
- Earnings are not taxed.
- Coverdell accounts affect financial aid in the same way as parental accounts.

529 college savings plans:

- Anyone can set up a 529 plan. Investment vehicles are chosen from various state run plans.
- Contribution limits are limited by the annual gifting limit with a special provision allowing the donor to "front load" the contribution with 5 years of annual gifts. Accounts have limits.
- The account owner has control of the 529 plan.
- Funds withdrawn for qualified higher education or K-12 tuition are not subject to federal tax. Some states do not allow 529 funds for K-12 tuition, so ask for help before doing this.
- Earnings are not taxed.
- Unused funds can be rolled to another family member.
- 529 Savings Plans affect financial aid in the same way as parental accounts.

529 prepaid tuition plans:

- Eligibility and contribution limits vary from state to state.
- The account owner has control of the 529 prepaid tuition plan.
- Funds withdrawn for qualified higher education or K-12 tuition are not subject to federal tax. Some states do not allow 529 funds for K-12 tuition, so ask for help before doing this.
- Earnings are not taxed.
- Generally, unused funds can be rolled to another account.

Tips:

- Consider saving for college in your Roth IRA. Roth contributions (not earnings) can be withdrawn at any time tax-free. Additionally, if your child has earned income (e.g. baby sitting, lawn mowing, W2 job) they can contribute to their own Roth account. Roth contributions have annual limits so ask for help if needed.
- Consider investing in municipal bonds in UTMA accounts to avoid the "kiddie tax".
- For additional information go to savingforcollege.com.