# Transferring Assets to a 529 Plan

A 529 College Savings Plan may be an attractive vehicle for those looking to save for a child's education.[1] If you have already committed college-earmarked assets to another type of financial vehicle, such as a Coverdell Education Savings Account or a custodial account for a minor beneficiary, you may want to investigate transferring those assets into a 529 plan.

**Making the Move From a Coverdell**
Amounts transferred from a Coverdell account to a "qualified tuition program" (IRS lingo for a 529 plan) are viewed as qualified education expenses by the IRS and are therefore tax free as long as the amount of the withdrawal is not more than the designated beneficiary's qualified education expenses.

There are several reasons why a college saver may want to take this course of action.

- **Consolidation with a more generous contribution limit:** Whereas Coverdell accounts limit contributions to $2,000 per beneficiary per year, 529 plans typically allow much higher lifetime contribution limits in excess of $200,000 per beneficiary in many states.
- **No income restrictions:** Unlike Coverdells, 529 plans generally do not impose income limits that restrict the ability of higher-income taxpayers to contribute.
- **No taxes or penalties:** Moving assets from a Coverdell to a 529 does not trigger taxes or penalties.

But there are also some drawbacks. Keep in mind that Coverdells and 529 plans are still relatively new, so legal and procedural precedents for specific strategies may not be well established yet. Since the funds in a Coverdell are owned by the beneficiary, any assets moved to a 529 plan owned by a parent could be construed as a transfer of ownership from the beneficiary to the parent. This could raise legal issues down the road if the parent subsequently changes the beneficiary. What's more, Coverdells can be used to pay for primary or secondary school costs, whereas 529 plans are limited to college expenses.

**Relocating UGMA/UTMA Assets**
Many 529 plans accept rollovers from custodial accounts established for minor beneficiaries, such as those created under the provisions of the Uniform Gifts/Uniform Transfers to Minors Act (UGMA/UTMA). Be aware that the money in an UGMA/UTMA account belongs to the minor, so any subsequent withdrawals after a transfer to a 529 plan may only be used for that minor. Also, since contributions to 529 plans must be in cash, UGMA/UTMA assets first need to be liquidated, with any capital gains taxable to the minor.

**Moving Savings Bond Assets**
The third option for a transfer to a 529 plan involves cashing in qualified U.S. savings bonds and contributing the proceeds to the plan, in accordance with the guidelines established by the IRS and the Treasury Department's Education Bond Program.[2] You can find more information at the Treasury Department's Treasury Direct Web site: http://www.treasurydirect.gov/indiv/planning/plan_education.htm.

*[1]By investing in a 529 plan outside of the state in which you pay taxes, you may lose the tax benefits offered by that state's plan. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary.*

[2]*Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest, and, if held to maturity, offer a fixed rate of return and fixed principal value.*

***Prior to investing in a 529 Plan investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing "Investors should consider the investment objectives, risks, charges and expenses associated with the municipal fund securities carefully before investing. The issuer's official statement contains this and other information about the investment. You can obtain an official statement from your financial representative. Read carefully before investing.***