



Comparing education planning choices to help you determine which is best for you

Features and benefits of:

- **Section 529 Plans** — tax-advantaged education savings plans operated by various states
- **Uniform Gifts to Minors Act (UGMA)/Uniform Transfers to Minors Act (UTMA) Custodial Accounts** — custodial accounts that are invested on behalf of a minor and can be used for education and other expenses

The comparative chart on the following pages was prepared to provide you with information on two different investment vehicles that may be used to invest for education expenses.* The chart provides information such as eligibility, taxation, investment options and impact on financial aid.

Before you invest in or contribute to a Section 529 plan or an UGMA/UTMA custodial account, consider your or your designated beneficiary's investment objectives, risk tolerance, time horizon and liquidity needs.

Need help choosing between options?



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* Merrill has prepared the comparison chart from sources and data we believe to be reliable. The information is general in nature and should not be considered legal or tax advice. This information is provided for general educational purposes only, and you should bear in mind that laws of a particular state and your particular situation may affect the information contained herein. You should consult your tax advisor regarding your specific tax situation. Merrill Lynch expressly disclaims any responsibility or liability for any losses or damages arising out of use of the chart.

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Investment products:

Are Not FDIC Insured

Are Not Bank Guaranteed

May Lose Value

Section 529 Plan

Custodial Account (UGMA/UTMA)

Description	Tax-advantaged way to fund the education expenses of a designated beneficiary. ¹	An account in which a custodian holds money or other property that has been gifted or transferred to a minor, pursuant to applicable state law.
How can funds be used?	<p>Qualified higher education expenses of the designated beneficiary may include:¹</p> <ul style="list-style-type: none"> • Tuition, fees, books, required supplies and equipment • Room and board² • Computers or peripheral equipment, computer software or internet access and related services • Certain expenses associated with special needs beneficiaries <p>You can take a federal tax-free distribution from a 529 of up to \$10,000 per calendar year per beneficiary to help pay for tuition at an elementary or secondary public, private or religious school. State tax treatment may vary.</p>	No restrictions except that funds may only be paid to or for the benefit of the named minor.
Where can funds be used?	Virtually any accredited college or university in the U.S. (includes graduate schools, community colleges and accredited vocational and technical schools). Some foreign schools are also eligible. Institutions must be eligible to participate in U.S. Department of Education student financial assistance programs.	There is no limit as to where the funds may be used, provided they are paid to or for the benefit of the minor.
Taxation on earnings	The earnings portion of a withdrawal is federal income tax-free as long as withdrawals are used for qualified higher education expenses. ¹	In 2019, the first \$1,100 of a child's income generally is tax-exempt, the next \$1,100 of unearned income generally is taxed at the child's tax rate, and unearned income over \$2,200 generally is taxed at the parent's tax rate if the child is under 18, or the child is age 18 and does not have earned income that is more than half of his or her financial support, or is a full-time student who is at least age 19 and under age 24 and who does not have earned income that is more than half of his or her financial support if at least one parent is living at the end of the tax year and the child is not filing a joint return for the tax year.
Taxation of withdrawals	Withdrawals used for qualified higher education expenses are federal income tax-free. (See "How can funds be used?" above.)	Not applicable. See "Taxation on earnings" above.
Investment options	<ul style="list-style-type: none"> • Varies by plan. Most plans offer investment portfolios consisting of underlying mutual funds or individual mutual fund options. • Investment options typically range from age-based options in which the asset allocation mix adjusts, based on the age of the beneficiary, to fixed allocation portfolios that range from conservative to aggressive. 	No restrictions other than those imposed by the relevant state UGMA/UTMA laws, which typically state that a custodian is subject to the "prudent person rule" but is not limited by any other statute restricting investments by fiduciaries.
Eligibility limits for contributors	None	None with regard to dollar maximums. However, state law may limit the types of transfers that can be made to the minor.
Maximum beneficiary age for contributions to account	No age limit	Statutory vesting age, which may range from 18 to 25, depending on the state law that governs.
Age at which withdrawals generally are required to be made	No age limit	No age limit, but the custodian has the responsibility to transfer the assets to the minor upon attainment of the vesting age.
Minimum contribution to establish an account	Varies by plan	Varies by provider/investment

Section 529 Plan

Custodial Account (UGMA/UTMA)

<p>Maximum contributions</p>	<ul style="list-style-type: none"> Varies by plan. However, most plans allow contributions in excess of \$300,000 per beneficiary. Federal gift taxes could apply. Under the five-year gift rule, you can take advantage of a gifting provision that allows you to contribute up to \$75,000 (\$150,000 for married couples filing jointly) per beneficiary in a single five-year period, federal gift tax-free, as long as there are no further gifts to the beneficiary in the same five-year period.³ 	<p>For 2019, any individual may contribute \$15,000 (\$30,000 for married couples filing jointly) per beneficiary per year without federal gift tax consequences, but there are no statutorily imposed maximum contribution amounts.</p>
<p>Control of assets</p>	<p>Participant/account owner maintains control of account.</p>	<p>Custodian controls account until minor reaches the vesting age. When minor attains the vesting age, the custodian has the responsibility of transferring the assets to the minor.</p>
<p>Ability to change beneficiaries</p>	<ul style="list-style-type: none"> The participant/account owner can change the designated beneficiary to a member of the family of the designated beneficiary (as defined in the Internal Revenue Code) without adverse income tax consequences. If assets from an UGMA/UTMA account are contributed, the custodian may not change the designated beneficiary, except as permitted by applicable law. A change of beneficiary could potentially be subject to federal gift tax if the new beneficiary is in a younger generation than the prior beneficiary, or is not a member of the family of the prior beneficiary. If the new beneficiary is in a generation two or more generations younger than the prior beneficiary, the transfer may be subject to the generation-skipping transfer tax. 	<p>No. Once a gift or transfer is made, the named minor cannot be changed.</p>
<p>Ability to transfer or roll over assets</p>	<ul style="list-style-type: none"> Assets can be transferred or rolled over federal income tax-free to another 529 plan for the same beneficiary, or for a member of the family of the beneficiary, once every 12 months. Indirect rollovers must be completed within 60 days. 529 assets can be rolled over into an Achieving a Better Life Experience (ABLE) account tax-free. Rollover amounts cannot exceed the ABLE account contribution limit. 	<ul style="list-style-type: none"> Assets can be transferred between custodial accounts for the same minor at any time, provided the accounts have the same title. Both must be UGMA (or UTMA), with the same state law governing, the same custodian and the same vesting age. Assets from an UGMA/UTMA account also may be contributed to a 529 plan or education savings account for the same minor. Because cash must be contributed to 529 plans and ESAs, the custodial account may be subject to a capital gains tax liability as a result of the liquidation of securities in the custodial account.
<p>Taxation of nonqualified withdrawals</p>	<ul style="list-style-type: none"> Withdrawals not used to pay for qualified higher education expenses as defined in the Internal Revenue Code are considered nonqualified withdrawals. The earnings portion of nonqualified withdrawals is subject to federal (and usually state and/or local) income tax, plus a 10% additional federal tax. The additional tax does not apply to withdrawals upon the beneficiary's death, disability, military academy attendance or receipt of a scholarship, as long as the amount withdrawn does not exceed the amount of such scholarship. State tax treatment will vary for distributions taken from a 529 to help pay for tuition at an elementary or secondary public, private or religious school. 	<p>Not applicable</p>
<p>Impact on federal financial aid</p>	<p>More Favorable</p> <p>Generally treated as an asset of the parent, which is weighted at 5.6% toward the expected family contribution (EFC) formula. Qualified withdrawals are not considered to be income to the parents or student in the EFC formula.⁴</p>	<p>Less Favorable</p> <p>Treated as an asset of the beneficiary, which is weighted at 20% toward the EFC formula.⁴</p>

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Before you invest in a Section 529 plan, request the plan's official statement from a Merrill Financial Solutions Advisor and read it carefully. The official statement contains more complete information, including investment objectives, charges, expenses and risks of investing in the plan, which you should carefully consider before investing. You should also consider whether your home state or your designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's 529 plan. Section 529 plans are not guaranteed by any state or federal agency.

Please remember there's always the potential of losing money when you invest in securities.

¹ To be eligible for the favorable tax treatment afforded to any earnings portions of withdrawals from Section 529 accounts, withdrawals must be used for "qualified higher education expenses," as defined in the Internal Revenue Code. The earnings portion of a withdrawal that is not used for such expenses is subject to federal income tax and may be subject to a 10% additional federal tax, as well as applicable state and local income taxes. For distributions after December 31, 2017, qualified higher education expenses include tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school. These distributions are limited to \$10,000 per calendar year, across all 529 accounts for the same beneficiary. State tax treatment may vary.

² To be eligible for the favorable tax treatment afforded any earnings portions of withdrawals from Section 529 accounts for qualified higher education expenses, room and board expenses must be incurred by students who are enrolled at least half-time. The expense for room and board qualifies only to the extent that it is not more than the greater of the following two amounts: (i) the allowance for room and board, as determined by the eligible educational institution, that was included in the cost of attendance (for federal financial aid purposes) for a particular academic period and living arrangement of the student; or (ii) the actual amount charged if the student is residing in housing owned or operated by the eligible educational institution.

³ Contributions during 2019 between \$15,000 and \$75,000 (\$30,000 and \$150,000 for married couples filing jointly) made in one year can be prorated over a five-year period without subjecting you to gift tax or reducing your federal unified estate and gift tax credit. If you contribute less than the \$75,000 (\$150,000 for married couples filing jointly) maximum, additional contributions can be made without you being subject to federal gift tax, up to a prorated level of \$15,000 (\$30,000 for married couples filing jointly) per year. Gift taxation may result if a contribution exceeds the available annual gift tax exclusion amount remaining for a given beneficiary in the year of contribution. For contributions between \$15,000 and \$75,000 (\$30,000 and \$150,000 for married couples filing jointly) made in one year, if the account owner dies before the end of the five-year period, a prorated portion of the contribution may be included in his or her estate for estate tax purposes. Please consult your tax and/or legal advisor for such guidance.

⁴ This is based on current interpretation of federal financial aid rules. Financial aid rules may change, and the rules in effect at the time the beneficiary applies may be different. For more complete information, please go to the Department of Education's website at www.ed.gov.

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