Comparison of Minor's Trust and 529 Plan

	Minor's Trust	529 Plan
Why should I consider setting one up?	This is a type of trust that can accept $16,000 annual exclusion gifts and is a flexible vehicle that can be used for any of the child's needs, e.g. medical, education, house purchase, etc. You choose the circumstances in which the child may receive distributions. The trust may extend beyond the child's becoming an adult.	This is essentially a tax-advantaged investment account that is not subject to federal income tax but may only be used for qualified education expenses. There is a 10% penalty for any other withdrawals, even if the beneficiary has completed his/her education. You may only use the investment advisor chosen by the state in which you set up your 529 Plan. State income tax treatment varies by state.
How much can I contribute to it?	Generally, a maximum equal to the annual exclusion amount, now $16,000 per donor and $32,000 for married couples.	Same as Minor's Trust, but see gift tax considerations below.
Are their any penalties for withdrawals?	No.	Yes, a penalty of 10% of earnings for withdrawing assets not used for qualified educational purposes, including assets left in account after beneficiary completes education. Qualified withdrawals include: elementary, secondary, and post-secondary tuition; at the post-secondary level, fees, some room and board expenses, books, and some equipment (e.g. computers); and up to $10,000 in student loan repayment.

Comparison of Minor's Trust and 529 Plan

What are the investment choices?	There are no restrictions on investments beyond a trustee's duty to invest prudently.	Generally, the account must invest with an investment manager chosen by the state, and investments are limited to funds offered by that investment manager, e.g. Fidelity.
Who controls the assets?	The Trustee controls investments and distributions.	The account owner controls distributions but investment choices are typically limited. (See Investment Choices, above.)
Are there limitations on how the money can be used?	There are no required limitations but you may write those into the trust, if you wish.	Funds may be used <u>only</u> for qualified education expenses. Beneficiary of account can be changed at any time by account owner, which may have gift tax consequence if new beneficiary is in a lower generation than original beneficiary.
Is there a minimum that I must contribute?	No minimum required but fee efficiency and portfolio diversification increase with larger funding.	Varies by provider. Generally either no minimum, a low minimum one-time contribution (e.g., $25), or a low minimum monthly deposit (e.g., $15).
How much does it cost?	Legal fees to establish trust. Potential fees for trustee/investment services.	General account maintenance and investment fees. Fees vary by plan.*

Comparison of Minor's Trust and 529 Plan

What are the gift tax considerations?	Annual gifts of $16,000 or less ($32,000 for married couples) are not subject to gift tax due to annual exclusion. Does not affect donor's lifetime exemption, currently $12.06 million.	Same as Minor's Trust but also has the ability to "front-load" gifts by making 5 years' worth of annual exclusion gifts at one time, in which case no other annual exclusion gifts to same recipient are allowed during that five year period. If donor dies during the five years, there is a pro-rata recapture of annual exclusion.
Is it subject to income tax?	Yes, subject to fiduciary income tax. Account can be invested for growth with low turnover to minimize income tax.	Not subject to federal or state income tax unless funds are withdrawn for non-qualified expenses, in which case 10% penalty applies as do state and federal income tax. Many (but not all) states allow for income tax deductions for a portion of funds contributed to an in-state 529 plan, although a recapture tax applies should funds be withdrawn for non-qualified expenses or, in some cases, if account is moved to another state. There is no federal deduction for contributions to a 529 Plan.
Can account be moved to a different state?	Yes -- typically by changing to a trustee located in a different state. In some cases, doing so may produce tax savings.	Yes by rolling over the account to a different state, but no more than once a year or the 10% penalty will apply. Some providers charge a rollover fee and there may be a state income recapture tax if contributions were deducted.

** Reference www.savingsforcollege.com for state-by-state comparison, including performance and fee comparison.*

Hemenway Trust Company LLC