

Difference Between UTMA and 529

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Key Difference – UTMA vs 529

Most parents start saving when their children are at a very young age in order to ensure them a prosperous future. Among other expenses, tuition fees for college pose as the most significant one. UTMA (Uniform Transfers to Minors Act) and 529 plan are two options in the United States to save for the above purposes. The key difference between UTMA and 529 is that **UTMA is a custodian account that is opened and managed by an adult (most probably a parent or a guardian) on behalf of a minor** whereas **529 plan is a tax-advantaged education savings plan offered by a state or educational institution designed to help families set aside funds for future college costs.**

What is UTMA?

UTMA (Uniform Transfers to Minors Act) is a **custodian** account (a safekeeping account) that is opened and managed by an adult (most probably a parent or a guardian) on behalf of a minor. UTMA can be opened in a bank or in another financial institution. **Financial assets** such as **shares**, **bonds**, and certificate of deposits can be maintained in a UTMA account, and this account can be also be used to transfer a lump sum of money, real estate or other inheritance to a minor. The legal ownership of all the assets lies with the **beneficiary**, i.e. the minor. Money and assets are usually turned over to the beneficiary's control at the age of 18 to 21, depending on the state, giving them the right to use the funds at their discretion. Funds and assets in a UTMA are irreversible, and the custodian cannot withdraw money contributed to the account.

A minimum initial investment and maintenance fee is charged for UTMA. Maintenance fee is not applicable if the account maintains a minimum daily balance of \$300 fee for each statement cycle. Unlike in 529, a discrete benefit cannot be obtained by using funds in a UTMA for educational purposes since the funds are subjected to **income tax** irrespective of what they are used for. The tax saving available in UTMA is for the parent/guardian since income taxes may be lowered by transferring funds or assets to a child.

What is 529?

529 plan is a tax-advantaged education savings plan offered by a state or educational institution designed to help families set aside funds for future college costs. 529 plans are officially named as qualified tuition plans and are sponsored by states or educational institutions and are authorized by Section 529 of the Internal Revenue Code. In most plans, funds invested in 529 can be utilized for college funding nationwide. The funds contributed to 529 plan will most probably be used for educational expenses unlike in UTMA where the children can use the funds for any purpose they want once they gain the control of the account. Two types of 529 plans are available as follows.

Prepaid Tuition Plan

In prepaid tuition plan, the parents/guardians can prepay a child's future tuition and fees at present rates.

College Savings Plan

This gives the opportunity for parents/ guardians to contribute to an account established to pay for the higher education of the child at any eligible educational institution.



Withdrawals from 529 plans are not subjected to income tax. However, if the funds are withdrawn for non-educational purposes, a tax of 10% is charged as a penalty. As per fees, annual maintenance fees and asset management fees are charged for 529 plans and an initial investment is also specified.

What are the similarities between UTMA and 529?

- Funds in both UTMA and 529 enjoy income tax advantages.

What is the difference between UTMA and 529?

APTT vs PTT

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529 plan is a tax-advantaged education savings plan offered by a state or educational

probably a parent or a guardian) on behalf of a minor.	institution designed to help families set aside funds for future college costs.
Nature	
With a UTMA, funds are considered a child's asset.	With a 529 plan, the funds are considered a parental asset.
Penalty	
No penalty is charged for withdrawing funds from a UTMA.	A penalty of 10% will be applied if funds in 529 plan are withdrawn for non-educational purposes.
Maintenance Fee	
No maintenance fee is applicable if the account maintains a minimum daily balance of \$300.	Maintenance fee is charged on an annual basis.

Summary – UTMA vs 529

The difference between UTMA and 529 mainly depends on the fact that the funds in UTMA can be used to fulfill any type of future expense of the minor while 529 is designated to save for future college expenses. Differences can also be found in terms of penalty charged and maintenance fees applied for each plan. A higher number of investment options are available to UTMAs, which makes it a better investment compared to 529 plans that have a limited number of investment choices from an investor point of view.

References:

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APA: Difference Between UTMA and 529. (2017, July 12). Retrieved (date), from <http://www.differencebetween.com/difference-between-utma-and-vs-529/>

MLA: "Difference Between UTMA and 529." *Difference Between.Com*. 12 July 2017. Web.

Chicago: "Difference Between UTMA and 529." *Difference Between.Com*. (accessed [date]). <http://www.differencebetween.com/difference-between-utma-and-vs-529/>



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