SAVING & INVESTING

COVERDELL EDUCATION SAVINGS ACCOUNTS

A SMART WAY TO SAVE FOR EDUCATION

A Coverdell Education Savings Account (ESA) is a trust or custodial account established for the sole purpose of paying the qualified education expenses of a designated beneficiary. While contributions are not deductible, ESA growth is tax deferred and qualified distributions are tax free.

Whether you're saving for kindergarten, high school, or college, a Coverdell ESA can help families set aside money for education in a tax-efficient way. Here's what to know about opening one, funding it, and using the savings.

1 OVERVIEW

A Coverdell Education Savings Account (ESA) is a trust or custodial account established for the sole purpose of paying for the qualified education expenses of a designated beneficiary. The account may be opened with any bank or IRS-approved entity offering Coverdell ESAs.

While contributions are not deductible, ESA growth is tax deferred and qualified distributions are tax free. Coverdell ESAs can also work alongside 529 plans and education tax credits in the same year — as long as the same expenses aren't used twice.

The Responsible Individual controls key account decisions, including authorizing distributions, directing investments, and reviewing statements. There is only one Responsible Individual per account. The Responsible Individual is generally a parent or guardian of the designated beneficiary; however, under certain circumstances the Responsible Individual may be the designated beneficiary or another party.

2 CONTRIBUTIONS

Any individual (subject to the income limits below) can contribute to a Coverdell ESA for a designated beneficiary (i.e., a child). Up to $2,000 per child, per year may be contributed from all contributors combined. Contributions must be in cash and cannot be made after the designated beneficiary turns 18 (waived for special needs). Corporations and trusts may also contribute and are not subject to the income limits for contributors.

INCOME LIMITS

The $2,000 contribution limit phases out based on the contributor's modified adjusted gross income:

FILING STATUS	PHASEOUT BEGINS	NO CONTRIBUTION ALLOWED
Single filers	$95,000	$110,000 or more
Married filing jointly	$190,000	$220,000 or more

CONTRIBUTION DEADLINE

Contributions for a tax year must be made by the contributor's tax-return due date, not including extensions — generally April 15 of the year following the tax year.

Tip: A contribution made between January 1 and April 15 can be designated as a prior-year contribution.

3 DISTRIBUTIONS

Distributions can be taken at any time. Generally, if the amount of the distribution in a year isn't more than the designated beneficiary's qualified educational expenses, the distribution is tax free. If distributions during the year exceed the designated beneficiary's qualified expenses, the earnings portion of the excess is taxable and generally subject to a 10% penalty tax. The 10% additional tax does not apply to distributions due to death, disability, or a tax-free scholarship. It is important to note that the same expenses cannot be used for both a tax-free ESA distribution and an American opportunity or lifetime learning credit.

ELIGIBLE EDUCATIONAL INSTITUTIONS

Coverdell ESA funds can be used at a wide range of schools:

Postsecondary: Any accredited public, nonprofit, or private college, university, vocational school, or other postsecondary institution eligible to participate in U.S. Department of Education student aid programs — including certain foreign institutions.

K–12: Any public, private, or religious school providing kindergarten through grade 12 education, as determined under state law.

QUALIFIED EDUCATIONAL EXPENSES

Higher Education

- Tuition, fees, books, supplies, and equipment (required for enrollment or attendance)
- Room and board (half-time students only, subject to limits)
- Computers, software, and internet access used primarily by the beneficiary while enrolled*
- Special needs services for special needs beneficiaries

K–12

- Tuition, fees, books, supplies, equipment, and academic tutoring
- Special services for special needs beneficiaries
- School-required items: room and board, uniforms, transportation, and supplementary services (including extended day programs)
- Computers, software, and internet access used by the beneficiary and family during K–12 years*

* Computer software for sports, games, or hobbies does not qualify unless primarily educational.

ACCOUNT CLOSURE

The account balance generally must be distributed within 30 days after the designated beneficiary turns 30, unless the beneficiary has special needs. However, funds can typically be transferred or rolled over to a Coverdell ESA for an eligible family member — either before the designated beneficiary turns 30 or, if that family member is named as death beneficiary, upon the designated beneficiary's death.

Tip: Keep records and receipts that substantiate qualified expenses paid with ESA distributions.