

# STRAIGHT ANSWERS TO YOUR EDUCATION SAVINGS ACCOUNT QUESTIONS



## What is a Coverdell Education Savings Account (CESA)?

A Coverdell Education Savings Account is a nondeductible contribution account that features tax-free withdrawals of contributions and earnings for a very specific purpose—a child’s education expenses.

At first glance, a CESA may look similar to traditional or Roth IRAs. Higher education distributions are also permitted from these accounts, but while qualified higher education distributions from a traditional or Roth IRA are penalty tax free, and Roth IRA distributions may be free from federal income tax, the same distributions from a CESA are penalty free and federal income tax free. Consult your tax or legal professional for further information regarding state or local income taxes.

## Who is a Designated Beneficiary?

A designated beneficiary of a CESA is a child, the individual for whom an account is established and who will eventually benefit by using the CESA assets for his/her education. A CESA is only for a life in being. In other words, a CESA designated beneficiary must already be born and living.

## Who Can Contribute to a CESA?

You are eligible to contribute to a CESA if your modified adjusted gross income (MAGI) does not exceed certain limits.

There are no compensation requirements or age restrictions for contributors. Contributors do not even need to be related to the child they are contributing for.

Contributors can even be nonindividuals, like corporations or tax-exempt organizations. These entities have no MAGI restrictions.

## How Much Can I Contribute to a CESA?

The total aggregate contribution into one or more CESAs on behalf of any child is \$2,000 a year. As a contributor, your allowable contribution depends on your MAGI. The MAGI limits are:

## Tax Savings, Tax-Free Earnings, and a Path to Education

### Single Filers

MAGI of \$95,000 or Less	MAGI Between \$95,000 and \$110,000	MAGI of \$110,000 or More
Full Contribution	Partial Contribution	No Contribution

### Married, Joint Filers

MAGI of \$190,000 or Less	MAGI Between \$190,000 and \$220,000	MAGI of \$220,000 or More
Full Contribution	Partial Contribution	No Contribution

## How Does the Law Define a “Child”?

A child is defined as a person who is younger than age 18. A child’s eligibility for CESA contributions ends after the date he/she attains the age of 18. Children with special needs are not subject to this restriction.

## What if I Want to Save for More Than One Child?

You may contribute your maximum allowable amount into separate CESAs for as many children as desired.

## If I Can’t Contribute the Maximum, Can Someone Else Also Contribute?

Yes, there can be more than one contributor, provided the total contribution amount per child does not exceed \$2,000 per year.

## What is the Contribution Deadline?

The CESA contribution deadline is the contributor’s tax-filing due date, not including extensions.

## Who Has Control of the Assets?

Each CESA will have a responsible individual, usually the child’s parent or legal guardian. That individual has control of the assets until the child reaches the age of majority, and in some cases, even after that date.

## Do I Pay Taxes on Distributions?

No, and neither does the child provided the assets are used to pay qualified education expenses. Although you cannot deduct any of the contributions that you make, taxes do not apply to the earnings portion when the assets are withdrawn for education expenses. The earnings portion of distributions for any other purpose is subject to taxes and a 10 percent penalty tax. Distributions due to death, disability, or amounts included in income because of the receipt of certain educational assistance or scholarship avoid the 10 percent penalty tax.

## What Are Qualified Education Expenses?

Higher Education—Tuition, fees, books, supplies, equipment required for the enrollment or attendance at an eligible higher education institution, computer technology, equipment, or internet access and related services if used while enrolled during any of the designated beneficiary's school years, are qualified expenses. An eligible higher education institution is an area vocational school, college, or university. This includes virtually all accredited public, nonprofit, and proprietary post-secondary institutions. An educational institution should be able to tell you if it is an eligible institution.

Elementary and Secondary Education—This includes kindergarten through grade 12 at a public, private, or religious school as determined under state law. Like higher education, tuition, fees, books, supplies, equipment, and room and board are qualified expenses. Elementary and secondary expenses include uniforms, transportation, and computer technology, equipment, or Internet access and related services if used during any of the designated beneficiary's school years. (This does not include expenses for software designed for sports, games, or hobbies unless the software is predominately educational in nature.)

Room and Board—Generally the school's posted room and board charge, or the allowance for room and board for federal financial aid purposes for students living in private housing—but not

at home—are eligible expenses if the student is enrolled at least half time.

Qualified Tuition Program Contributions—Contributions made to a qualified tuition program (also known as Section 529 plans) from CESA assets are also qualified expenses.

Expenses and corresponding distributions must occur during the same year. If distributions exceed qualified expenses, the additional amount withdrawn is subject to tax and penalty.

## Can I roll over a military death gratuity to my CESA?

Any survivor of a member of the Armed Forces who receives a military death gratuity or Servicemembers' Group Life Insurance payment may roll such assets to his/her own CESA within one year of the date of receipt. The amount eligible for rollover is the amount received, less any amount rolled over to a Roth IRA.

## Can I Move Assets From My Traditional or Roth IRA Into a CESA?

No. The rules allow rollover and transfer contributions between CESAs. They do not allow any rollover, transfer, conversion, or recharacterization contributions to or from any type of IRA.

## Can I Move Assets Between CESAs?

You can roll over or transfer assets from one CESA into a second CESA established for the same child. You can also roll over or transfer CESA assets into a CESA for a different designated beneficiary if he/she is a member of the same family (as defined by law). That way, if a child decides not to pursue education, the responsible individual can roll over or transfer the CESA assets to the CESA of a relative who does.

## Are Distributions Required?

The balance must be withdrawn within 30 days after the designated beneficiary's death or his/her 30th birthday, whichever is earlier. The age 30 distribution requirement does not apply to special needs individuals.

## Can I Use CESA Assets Together With Other Forms of Education Funding?

Yes. The rules allow CESA contributions even if there are same-year Qualified Tuition Program contributions for the same individual. As long as distributions and tax credits are for different expenses, parents can use the Hope Scholarship and Lifetime Learning tax credits in the same year as tax-free CESA distributions.

## How is CESA Activity Reported to the IRS?

Reporting of CESA contributions and distributions to the IRS is in the name and taxpayer identification number of the designated beneficiary. Contributions are reported on IRS Form 5498-ESA, *Coverdell ESA Contribution Information*. Distributions (including transfers) are reported on IRS Form 1099-Q, *Payments From Qualified Education Programs (Under Sections 529 and 530)*.

## How Do I Open a CESA?

See any of our new account representatives. We will explain the nature of these accounts in more detail and help you complete the forms necessary to establish a CESA for a child.

*This brochure is intended to provide general information on federal tax laws governing CESAs. It is not intended to provide recommendations, legal advice, or to be a detailed explanation of the rules or how such rules may apply to your individual circumstances. For specific information, you are encouraged to consult your tax or legal professional. IRS Publication 970, Tax Benefits for Education, and the IRS's web site, [www.irs.gov](http://www.irs.gov), may also provide helpful information.*