

# Find the answers to your questions about education savings accounts.

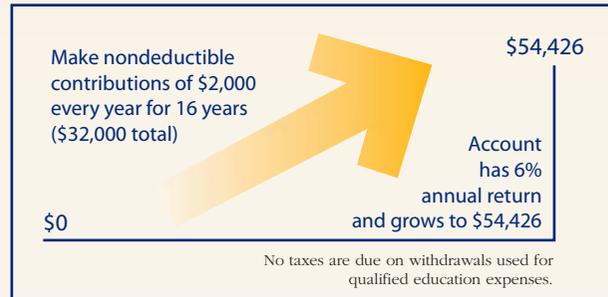
Are you interested in opening a Coverdell education savings account (ESA) for a child but have questions? The commonly-asked questions and answers within this brochure may provide the facts you need to make an informed decision of whether an ESA is the right option for you.

## Q. What is a Coverdell education savings account (ESA)?

A. Coverdell ESAs help people save for a child's education expenses, such as tuition, fees, books, supplies, equipment, and, in some cases, room and board.

## Q. How does an ESA work?

A. With an ESA, you make nondeductible contributions that provide the potential for tax-free withdrawals—including earnings down the road. Here's a look at how your money can grow in a Coverdell ESA.



## Q. Who can contribute to an ESA?

A. Anyone—family member or nonfamily member—can contribute to a child's ESA, as long as the contributor's modified adjusted gross income (MAGI) falls below or within the income limits for the year. (See below for the current income eligibility limits.) If your MAGI falls below the lower limit, you may contribute up to the \$2,000 maximum per child. If it falls within the limits, you may contribute a portion of the maximum annual contribution (use IRS formula to calculate). If your income exceeds the limits, you cannot contribute to an ESA for that year.

### MAGI Limits

Single Filer: \$95,000–\$110,000

Married, Joint Filer: \$190,000–\$220,000

Businesses may also contribute and are not subject to the MAGI limits.

## For More Information

Please contact one of our representatives for more information on Coverdell education savings accounts.

Coverdell Education Savings Accounts

# Answers to Your Questions



**Q. How much can I contribute to an ESA?**

**A.** Depending on your MAGI, you may be able to contribute up to \$2,000 per child. For example, if you choose to contribute to the ESAs of three children and you are eligible to give the full contribution amount, you could contribute \$6,000 total (\$2,000 to each child). Each child may receive no more than \$2,000 total per year in ESA contributions. Thus, if several individuals are making ESA contributions for the same child, a coordinated effort will ensure that the total contributions a child receives in one year do not result in an excess.

**Q. What is the deadline for making ESA contributions each year?**

**A.** You have until the due date for filing your federal income tax return for the year to contribute to an ESA. For most individuals, this is April 15.

**Q. How long can I contribute to a child’s ESA?**

**A.** You can make contributions to a child’s ESA until she reaches age 18.\*

**Q. If I contribute to an ESA, can I still contribute to a Traditional or Roth IRA?**

**A.** ESA contributions do not affect the contributions you can make to Traditional or Roth IRAs.

**Q. Who controls the ESA?**

**A.** Every ESA must have a “responsible individual” assigned to oversee the account. This person directs the investments within the account, decides when to withdraw money, and decides if and when to transfer or roll over the assets to another eligible family member’s ESA. Generally, the “responsible individual” is a parent or legal guardian of the child. The child may serve as the responsible individual after becoming an adult.

**Q. Can ESA assets be moved to another ESA?**

**A.** Yes. Assets can be transferred or rolled over from one ESA to another ESA for the same child or an eligible family member of the child. There is no time limit for executing a transfer, but rollovers between ESAs must be completed within 60 days. Keep in mind that only one rollover is permitted per ESA every 12 months.

**Q. Who is considered an eligible family member for purposes of a rollover?**

**A.** Family members of the child who are eligible to receive unused funds into an ESA include spouses, siblings, nieces, nephews, first cousins, parents, aunts, uncles, children, and grandchildren under the age of 30.\*

**Q. Can retirement plan assets be rolled over to an ESA?**

**A.** No. Assets from IRAs, employer-sponsored retirement plans, and even qualified tuition programs (QTPs or state 529 plans) cannot be rolled over to ESAs.

**Q. Can ESA assets be moved to a QTP (state 529 plan)?**

**A.** Yes. ESA distributions are tax-free if contributed to a QTP for the same child.

**Q. When can ESA money be accessed?**

**A.** The responsible individual can withdraw money from the child’s ESA at any time. But the amount withdrawn may be subject to tax and penalty if it is not used to pay for the child’s qualified education expenses.

**Q. What education expenses are considered to be “qualified”?**

**A.** Qualified expenses are outlined in the chart below.

	Eligible Expenses	Condition for Qualification
Higher Education	<ul style="list-style-type: none"> <li>• Tuition and fees</li> <li>• Books, supplies, and equipment</li> </ul>	Must be <i>required</i> for enrollment (no minimum enrollment standard)
	<ul style="list-style-type: none"> <li>• Room and board (subject to limits)</li> </ul>	Student must be enrolled at least half-time
Elementary and Secondary Education	<ul style="list-style-type: none"> <li>• Tuition and fees</li> <li>• Books, supplies, and equipment</li> <li>• Academic tutoring</li> <li>• Special needs services</li> </ul>	Must be <i>incurred</i> in connection with enrollment or attendance
	<ul style="list-style-type: none"> <li>• Room and board</li> <li>• Uniforms</li> <li>• Transportation</li> <li>• Supplementary items (including extended day programs)</li> </ul>	Must be <i>required or provided by school</i> in connection with attendance or enrollment
	<ul style="list-style-type: none"> <li>• Computer technology, equipment, Internet access, and related services (does not include software designed for sports, games, or hobbies, unless predominantly educational in nature)</li> </ul>	Must be used by child and the child’s family during any of the years the child is in school

\* The age 18 and age 30 limits do not apply to special needs individuals.

**Q. What happens to the ESA if a child doesn’t use the money?**

**A.** If a child does not use the money in her ESA before she turns 30,\* the unused portion can be rolled over to another eligible family member under the age of 30. If money remains in the ESA when the child turns 30, the ESA will be distributed and taxable to the child.

**Q. What if a child earns an academic scholarship and tuition is waived?**

**A.** The amount of scholarship money a child receives is deducted from the allowable expenses for the ESA. For example, if qualified expenses total \$6,000 and a child receives a scholarship for \$4,000, you can make a qualified withdrawal of \$2,000 from the ESA. Remember that unused funds can always be rolled over to the ESA of an eligible family member.

**Q. How does contributing to an ESA affect other education savings incentives?**

**A.** Contributions can be made on behalf of the same child to both an ESA and a QTP. A child also can receive tax-free distributions from an ESA in the same year he claims the Lifetime Learning or American Opportunity scholarship tax credits, but the same expenses cannot be used for more than one of these tax benefits.

**Q. Don’t Traditional and Roth IRAs allow distributions for education expenses?**

**A.** Traditional and Roth IRAs do offer penalty-free withdrawals for qualified *higher* education expenses, but you still may need to pay taxes on those withdrawals. In contrast, withdrawals from a Coverdell ESA are both tax-free and penalty-free if used for qualified elementary, secondary, or higher education expenses.