

COVERDELL EDUCATION SAVINGS ACCOUNTS

A Coverdell Education Savings Account (ESA) is a trust or custodial account used to pay for the qualified education expenses of the designated beneficiary of the account. Funds from an ESA may be used for expenses for a beneficiary in elementary (K-8th), secondary (9th-12th), or post-secondary school (higher education, vocational school, undergraduate or graduate degrees).

Eligibility

The contributor is not required to have earned income; however, contributions may only be made to ESAs by individuals whose modified adjusted gross income (MAGI) does not exceed these levels:

	Individual Returns (MAGI)	Joint Returns (MAGI)
Full Contribution	‹$95,000	‹$190,000
Partial Contribution	$95,000 – $110,000	$190,000 – $220,000
No Contribution	›$110,000	›$220,000

Contributions

- Must be made in cash
- Are non-deductible
- Must be made before the beneficiary reaches age 18
- Cannot exceed $2,000 per beneficiary per year
- Must be made by the filer's tax return due date (not including extensions)
- Can be made by individuals, certain trusts, corporations, and tax-exempt organizations

Distributions

Distributions are tax- and penalty-free if they are not more than the beneficiary's adjusted qualified education expenses for the year. A taxpayer is allowed to claim Hope & Lifetime Learning Credits for the same year an ESA distribution is made. However, the taxpayer cannot use the ESA distribution to cover the same educational expenses claimed for the Hope & Lifetime Learning Credit. If a withdrawal is not used for a qualified education expense, contributions will be distributed tax- and penalty-free; however, earnings will be subject to ordinary income tax and a 10% early withdrawal penalty. Assets must be distributed once the beneficiary reaches age 30 (unless they are special needs).

Qualified Education Expenses

The following items are considered qualified education expenses:

- Tuition and Fees
- Books, Supplies, and Equipment
- Basic Room and Board (must be at least a half-time student)
- Academic Tutoring
- Computer Equipment and Internet Access
- School Uniforms (K-12 only)
- Special Needs Services
- Distributions rolled into 529 Plans on behalf of the Designated Beneficiary
- In some cases: Transportation Costs or Extended Day Programs (K-12 only)
- In some cases: Computer Software, Technology, or Related Services (Higher Education only)

Rollovers

An ESA may roll over into another ESA for the same beneficiary. The beneficiary may be changed to another family member before that beneficiary reaches age 30. Also, a 60-day rollover may be completed with an ESA one time during every rolling 365 days.

Stifel does not provide tax advice. You should consult with your professional tax advisor regarding your particular situation.

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