

# COVERDELL EDUCATION SAVINGS ACCOUNT

Saving for a child's education expenses



A Coverdell Education Account is an account created to help parents and others save for payment of a child's qualified education expenses.

## Contributions

The plan allows for a total contribution of \$2,000.00 per year per child. Like the Roth IRA, the Coverdell is funded by non-deductible contributions. Contributions may be made until the year the child reaches age 18. Contributions may be made after age 18 for special needs children. The child is considered the designated beneficiary of the Coverdell Education Account.

A single tax filer with MAGI of less than \$95,000.00, and joint tax filers with MAGI under \$190,000.00 may contribute the full \$2000.00 per year.

For single filers with MAGI over \$110,000.00 and joint filers with MAGI over \$220,000.00 no contribution is allowed. Between the two MAGI levels there will be a partial contribution allowed.

The plan is not limited to parents. Anyone may open a Coverdell Education Account for a child. It may be a grandparent, aunt, uncle, friend or the child himself/herself.

The person making the contribution is considered the contributor. The child is considered the designated beneficiary. The parent/legal guardian must be the Responsible Individual or Manager of the account.

## Withdrawals

The earnings on the Coverdell Education Account may be withdrawn tax-free so long as the funds are used for qualified expenses. These qualified expenses include:

- Tuition
- Books
- Fees
- Certain room and board expenses
- Supplies and equipment
- Qualifying expenses for a special needs child

The plan contributor will not incur taxable MAGI, if any occurs, unless the contributor is the child. If taxation occurs (for non-qualified expenses) it will be to the designated beneficiary (child) of the Coverdell Education Account.

Once the designated beneficiary (child) turns 30 years old, funds in the Coverdell Education Account must be withdrawn within 30 days, unless it is for a special needs child. Any funds left in the account that are not used for qualified education expenses will be taxable to the designated beneficiary. A 10% penalty may also apply.

## Rollovers and Transfers

Rollovers and Transfers are allowed from one Coverdell Education Account to another Coverdell Education Account only. Rollovers must be completed within 60 days and are limited to one every 12 months. Transfers within a 12 month period are unlimited. The funds must benefit the same child or an eligible member of the child's family who is under age 30. Examples of eligible members of the family are:

- Parents & grandparents
- Siblings
- Stepchildren and their spouses
- Spouses
- Children and their spouses
- First cousins

Whoever the designated beneficiary is, contributions can only be made until they reach age 18 unless it is a special needs child.

## Change of Beneficiary

If the plan allows it, the designated beneficiary of a Coverdell Education Account may be changed as long as they are an eligible family member as mentioned above. An example of a reason a designated beneficiary may be changed would be if the current beneficiary has completed their education and there are funds left in the account. Or, if the designated beneficiary dies before age 30 and funds remain in the account. The Change of Designated Beneficiary is established at the time of the initial opening of the Coverdell Education Savings Account and is irrevocable.

If you would like more information on Coverdell Education Accounts go to [www.irs.gov](http://www.irs.gov) Publication 970. Consult your tax or financial advisor to see if you qualify to contribute to a Coverdell Education Savings Account.

