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Answers to Your Coverdell Education Savings Account Questions

Q. What is a Coverdell Education Savings Account?

A. It is a type of tax-advantaged savings account created by the Taxpayer Relief Act of 1997. This IRA's sole purpose is to help you pay for your child's education expenses such as tuition, fees, books, supplies, equipment, and in some cases, room and board and computers. These options were improved by the Economic Growth and Tax Relief Act of 2001.

Q. How does the Coverdell Education Savings Account work?

A. Unlike Traditional IRAs, your contributions to this IRA are never tax-deductible. However, a Coverdell Education Savings Account offers you the potential for tax-free withdrawals including earnings.

Q. How much can I contribute to a Coverdell Education Savings Account?

A. The total contributions each year to each child's Coverdell Education Savings Account cannot exceed \$2,000. If you're eligible, you can contribute the full amount for each child. For example, if you have three children and each has his or her own Coverdell ESA, you can contribute \$6,000 (\$2,000 to each ESA).

Q. Who is eligible to open and contribute the full amount to a Coverdell Education Savings Account?

A. You can contribute the full amount if you are a:

- Single filer with modified adjusted gross income (MAGI) up to \$95,000
- Joint filer with MAGI up to \$190,000

Q. What happens if my (our) income is too high to make the full contribution?

A. You can make contributions of less than the full amount if you are a:

- Single filer with modified adjusted gross income between \$95,000 and \$110,000
- Joint filer with modified adjusted gross income between \$190,000 and \$220,000

If your income exceeds these amounts, you cannot make a regular Coverdell Education Savings Account contribution for that year.

The above information is provided for educational purposes and is not intended as tax advice. Please consult a tax professional.



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Q. How long can I contribute to the account?

- A. You can make contributions to a child's Coverdell Education Savings Account until he or she reaches the age of 18. This age limit does not apply to special needs beneficiaries. This is a person who requires additional time to complete his or her education because of a physical, mental or emotional condition (including a learning disability).

Q. As a parent, am I the only one who can open and contribute to a Coverdell ESA?

- A. No. Anybody who meets the income requirements can open and contribute to your child's Education Account. This includes grandparents, aunts, and uncles, family friends, and anyone else who wants to pitch in to your child's education fund.

Corporations, tax-exempt organizations, and other entities can also make contributions to Coverdell Education Saving Accounts, and there are no income limits on these contributors. However, the total contributions to all Education Saving Accounts for each child cannot exceed \$2,000.

Q. Can I roll funds from a Traditional or Roth IRA into an Education Account?

- A. Rollovers from a Traditional or Roth IRA into a Coverdell ESA are not allowed.

Q. Who controls the account?

- A. Every account must have one, and only one, "responsible individual" to oversee the account. This person decides when funds will be withdrawn and if and when funds will be rolled over to the Coverdell Education Savings Account of a family member. You can be the "responsible individual" as long as you are a parent or legal guardian of the child. The child can serve as the responsible individual after becoming an adult.

Q. When can I withdraw funds from a Coverdell Education Savings Account?

- A. As the responsible individual, you can withdraw funds at any time. However, to avoid tax consequences from the withdrawal, you must use the funds to pay for qualified education expenses for your child (the ESA's designated beneficiary) before he or she reaches age 30 (exception: the age 30 limit does not apply to a special needs beneficiary).

Q. What educational expenses are considered to be "qualified?"

- A. Qualified expenses include tuition, fees, books, and equipment required for enrollment or attendance at nearly any post-secondary educational institution (public, nonprofit, or proprietary). Certain room and board expenses also may qualify.

Qualified expenses also include these same expenses for elementary and secondary education, and the purchase of computer technology or equipment that is used by the beneficiary and the beneficiary's family while the beneficiary is in school.

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Q. What happens if my child doesn't use the funds?

- A. If your child (the designated beneficiary of the Education Account) decides not to go to college or leaves school before all the funds are withdrawn, you can roll unused funds into the Coverdell Education Savings Account of another child in your family. The beneficiary of the Account that receives the unused funds must be under the age of 30 (exception: the age 30 limit does not apply to a special needs beneficiary).

Q. Who is considered a family member for the purposes of a rollover?

- A. Family members of the designated beneficiary who are eligible to receive unused funds include (but are not limited to) spouses, siblings, stepsiblings, nieces, nephews, parents, aunts, uncles, grandparents, children, and grandchildren. Of course, some of these categories will be eliminated immediately since the new designated beneficiary must be under the age of 30 at the time of the rollover (exception: the age 30 limit does not apply to a special needs beneficiary).

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

- A. The amount of scholarship money your child receives is deducted from the allowable expenses for the Coverdell Education Savings Account. For example, if qualified expenses total \$6,000 and your child receives a scholarship for \$3,000, you can make a qualified withdrawal of \$3,000 from the Account. Remember that unused funds can always be rolled over into the Coverdell ESA of a family member.

Q. How does the Coverdell Education Savings Account affect other education savings incentives?

- A. Contributions can be made on behalf of the same child to both a Coverdell Education Savings Account and a qualified state 529 plan. A person can also receive tax-free distributions from a Coverdell ESA in the same year he or she claims the Lifetime Learning or HOPE Scholarship tax credits, but the same expenses cannot be used for more than one of these tax benefits.

Q. If I contribute to a Coverdell Education Savings Account, can I still contribute to a Traditional or Roth IRA?

- A. Contributions to Traditional or Roth IRAs have no effect on the contribution you can make to each Coverdell ESA.

Q. Don't Traditional and Roth IRAs allow me to withdraw funds for education expenses?

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

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