What is a Coverdell education savings account?

The Coverdell education savings account (formerly called an Education IRA) is a nondeductible individual account that allows $2,000 per year, plus earnings, to be contributed for educational expenses. Contributions are allowed for each qualified child in a family. Distributions are both tax free and penalty free if used in accordance with the account guidelines.

Who can contribute?

- Anyone can contribute on behalf of a child who is under the age of 18.
- A child can contribute to his or her own account.
- Contributors do not need to have earned income to contribute.
- The contributor's modified adjusted gross income (MAGI), which is often the same as adjusted gross income (AGI), must fall within the following limits:

MAGI	Filing Status*	Contribution
$95,000 or less	S, HH, QW, MFS	Full
$95,000–$110,000	S, HH, QW, MFS	Partial
More than $110,000	S, HH, QW, MFS	None
$190,000 or less	MFJ	Full
$190,000–$220,000	MFJ	Partial
More than $220,000	MFJ	None

These figures are not adjusted for inflation.

How much can be contributed?

- Up to $2,000 per year per child.
- Total maximum amount is $2,000, no matter how many individuals share in the contribution.
- All contributions must be in cash.
- A 6% excise tax applies for contributions exceeding $2,000 for an individual unless the excess is withdrawn by June 1 of the following year and the earnings on the excess contributions are also withdrawn.

Are contributions deductible?

Contributions to a Coverdell education savings account are not deductible for federal tax purposes.

Deadline for contributing

All contributions must be made by the due date (not including extensions) for the contributor's tax return. For calendar-year taxpayers, the due date for contributions is generally April 15 of the following year.

When can distributions be taken?

- At any time to pay for qualified education expenses and room and board expenses for a qualified child.
- Distributions must be made during the year in which the expenses occurred.
- Amounts withdrawn that exceed the amount for qualified education expenses are considered nonqualified distributions.

Eligible educational institutions

- Any qualified elementary or secondary educational institution.
- Any accredited college, university, vocational school, or other accredited post-secondary educational institution deemed eligible to participate in a student aid program administered by the Department of Education.
- Includes most (but not all) accredited, public, nonprofit, and privately owned institutions.
- Institutions will be able to tell you if they qualify.

Qualifying expenses for elementary or secondary education

- Tuition, fees, academic tutoring, books, supplies, and other related expenses required for enrollment or attendance at an eligible educational institution.
- Room and board, uniforms, transportation, and supplementary items and services, including extended day programs that are required or provided by a public, private, or religious school in connection with enrollment or attendance.
- Computer technology and equipment or Internet access and related services, if used by the student and the student's family during any of the years the student is in school.

Qualifying expenses for post-secondary education

- Tuition, fees, books, supplies and equipment required for enrollment or attendance.
- Room and board for students enrolled at least half-time. Room and board expenses are limited to $2,500 if the student lives off campus and not at home.

How are distributions taxed?

Qualified distributions are tax free for both the principal and earnings distributed.

* Filing Status: S = Single; MFJ = Married Filing Joint; QW = Qualifying Widow(er); MFS = Married Filing Separate; HH = Head of Household.

Nonqualified distributions are subject to tax on the earnings plus a 10% penalty unless they are made due to death, disability, or funding of a scholarship (payment to a state tuition program) for the beneficiary.

Upon the death of a beneficiary, a transfer of an account to the surviving spouse is tax free. Other transfers are taxable events. Distributions must occur within 30 days after the death of the account beneficiary.

Funds remaining in the account upon the beneficiary completing school or reaching age 30 may be withdrawn subject to tax and penalty, or rolled over to a Coverdell education savings account for a member of the beneficiary's family. Family members may include a son, daughter, stepson, stepdaughter, brother, sister, father, mother, stepfather, stepmother, nephew, niece, uncle, aunt, mother-in-law, father-in-law, brother-in-law, or sister-in-law.

Important note

Eligible taxpayers can claim an American Opportunity Credit or Lifetime Learning Credit in the same year they take a tax-free distribution from a Coverdell ESA, provided the distribution from the Coverdell ESA is not used for the same expense for which the credit is claimed.

This brochure contains general tax information for taxpayers. As each tax situation may be different, do not rely upon this information as your sole source of authority. Please seek professional advice for all tax situations.

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