

esa

education savings accounts

Q. What is the deadline for making a Coverdell ESA contribution?

- A.** The deadline for making a Coverdell ESA contribution is the tax return deadline for the year for which the contribution is being made (usually April 15 of the following calendar year) not including extensions.

It's never too early to start saving

When your children are young, it's hard to imagine them strolling a college campus or cramming for final exams. But it's never too early to begin saving – especially when your funds could be growing tax-free in a Coverdell ESA. We hope this brochure has helped you understand the Coverdell ESA and its advantages as a college savings tool.

More Questions?

We would be happy to help you. Please call or stop by to see us.



**Coverdell Education
Savings Accounts**
Answers to Your Questions

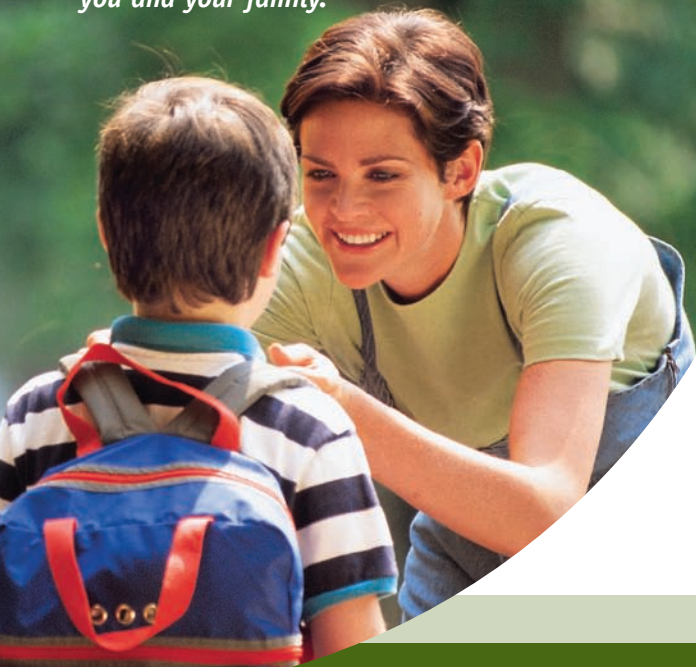
Not intended as tax advice. Please consult a tax professional.

Give Your Child the Gift of Education

Seeing a child work toward a college degree is a parent's dream. But with rapidly escalating costs of higher education, this dream can become a financial nightmare. A Coverdell Educational Savings Account (ESA) can help parents sleep at night. The main benefits of a Coverdell ESA include:

- Unlike state 529 plans, Coverdell ESAs can be used to pay for qualified elementary and secondary education expenses.
- Earnings grow tax-free if distributions are used for qualified education expenses.

This information provides answers to your questions and can help you decide whether or not a Coverdell ESA is a good choice for you and your family.



Q. What is a Coverdell Education Savings Account (ESA)?

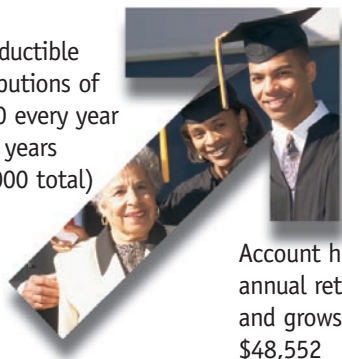
- A.** The Taxpayer Relief Act of 1997 created the Education IRA, now known as the Coverdell ESA. Its sole purpose is to help you pay for your child's education expenses, such as tuition, fees, books, supplies, equipment, and in some cases, room and board and computers. These options were improved by the Economic Growth and Tax Relief Reconciliation Act of 2001.

Q. How does a Coverdell ESA work?

- A.** Contributions to a Coverdell ESA are never tax-deductible. However, a Coverdell ESA offers you the potential for tax-free withdrawals – including earnings. Here's a look at how your money can grow in a Coverdell ESA:

\$48,552

Make nondeductible contributions of \$2,000 every year for 16 years (\$32,000 total)



Account has 6% annual return and grows to \$48,552

\$0

No taxes are due on withdrawals used for qualified higher-education expenses

Q. What is the most I can contribute to a Coverdell ESA?

- A.** The total contributions each year to each child's Coverdell ESA 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 ESA?

- 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 to a Coverdell ESA?

- A.** You can make contributions of less than the full amount if you are a:
- Single filer with MAGI between \$95,000 and \$110,000
 - Joint filer with MAGI between \$190,000 and \$220,000

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

Q. How long can I contribute to the account?

- A.** You can make contributions to a child's Coverdell ESA 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 for my child?

- A.** No. Anybody who meets the income requirements can open and contribute to your child's Coverdell ESA. 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 Coverdell ESA contributions, and there are no income limits on these contributors. However, the total annual contributions to all Coverdell ESAs for each child can't exceed \$2,000.

Q. Who controls the account?

- A.** Every Coverdell ESA 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 ESA 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 ESA?

- 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 (except that 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.

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

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

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

A. The amount of scholarship money your child receives is deducted from the allowable expenses for the Coverdell ESA. 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 Coverdell ESA. Remember that unused funds can always be rolled over into the Coverdell ESA of a family member.

Q. Can I roll funds from a traditional or Roth IRA into a Coverdell ESA?

A. No, rollovers from a traditional or Roth IRA into a Coverdell ESA are not allowed.

Q. How does the Coverdell ESA affect other education savings incentives?

A. Contributions can be made on behalf of the same child to both a Coverdell ESA 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 ESA, can I still contribute to a traditional or Roth IRA?

A. Contributions to traditional or Roth IRAs have no effect on the contributions 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 ESA are both tax-free and penalty-free if used for qualified education expenses.