

CESA

Discover the Benefits of
a Coverdell Education
Savings Account

What is a Coverdell Education Savings Account (CESA)?

The Coverdell Education Savings Account is a nondeductible account that features tax-free withdrawals for a very specific purpose—a child's education expenses.

At first glance, a CESA may look similar to traditional or Roth IRAs. Higher education distributions are also permitted from these accounts, but while qualified higher education distributions from a traditional or Roth IRA are penalty tax free, and Roth IRA distributions may be free from federal income tax, the same distributions from a CESA are penalty free and federal income tax free. Consult your tax or legal professional for further information regarding state or local income taxes.

Who Can Contribute to a CESA?

You are eligible to contribute if your modified adjusted gross income (MAGI) does not exceed certain limits (see tables at right).

There are no compensation requirements or age restrictions for contributors. They do not even need to be related to the child they are contributing for.

Contributors can even be nonindividuals like corporations or tax-exempt organizations. These entities have no MAGI restrictions.

How Much Can I Contribute?

The total aggregate contribution into one or more CESAs on behalf of any child is \$2,000 a year. As a contributor, your allowable contribution depends on your MAGI. The MAGI limits are:

Single Filers

MAGI of \$95,000 or Less	MAGI Between \$95,000 and \$110,000	MAGI of \$110,000 or More
Full Contribution	Partial Contribution	No Contribution

Tax Savings, Tax-Free Earnings, and a Path to Education

Married, Joint Filers

MAGI of \$190,000 or Less	MAGI Between \$190,000 and \$220,000	MAGI of \$220,000 or More
Full Contribution	Partial Contribution	No Contribution

How Does the Law Define a "Child"?

A child is defined as a person who is younger than age 18. A child's eligibility for CESA contributions ends after the date he/she attains the age of 18. Children with special needs are not subject to this restriction.

What if I Want to Save for More Than One Child?

You may contribute your maximum allowable amount into separate CESAs for as many children as desired.

If I Can't Contribute the Maximum, Can Someone Else Also Contribute?

Yes, there can be more than one contributor, provided the total annual contribution amount per child does not exceed \$2,000.

What is the Contribution Deadline?

The CESA contribution deadline is the contributor's tax-filing due date, not including extensions.

Who Has Control of the Assets?

Each CESA will have a responsible individual, usually the child's parent or legal guardian. That individual has control of the assets until the child reaches the age of majority, and in some cases, even after that date.



Do I Pay Taxes on Distributions?

No, and neither does the child provided the assets are used for qualified education expenses. Although you cannot deduct any of the contributions that you make, taxes do not apply to the earnings portion when the assets are withdrawn for education expenses. The earnings portion of distributions for any other purpose is subject to taxes and a 10 percent penalty tax. Distributions due to death, disability, or amounts included in income because of the receipt of certain educational assistance or scholarship avoid the 10 percent penalty tax.

What Are Qualified Education Expenses?

Higher Education—Tuition, fees, books, supplies, and equipment required for the enrollment or attendance at an eligible higher education institution are qualified expenses. An eligible higher education institution is an area vocational school, college, or university. This includes virtually all accredited public, nonprofit, and proprietary post-secondary institutions. An educational institution should be able to tell you if it is an eligible institution.

Elementary and Secondary Education—This includes kindergarten through grade 12 at a public, private, or religious school as determined under state law. Like higher education, tuition, fees, books, supplies, equipment, and room and board are qualified expenses. Unique to elementary and secondary expenses are uniforms, transportation, and computer technology, equipment, or Internet access and related services if used during any of the designated beneficiary's school years. (This does not include expenses for software designed for sports, games, or hobbies unless the software is predominately educational in nature.)

Room and Board—Generally the school's posted room and board charge, or the allowance for room and board for federal financial aid purposes for students living in private housing—but not at home—are eligible expenses if the student is enrolled at least half time.

Qualified Tuition Program Contributions—Contributions made to a qualified tuition program (also known as Section 529 plans) from CESA assets are also qualified expenses.

Expenses and corresponding distributions must occur during the same year. If distributions exceed qualified expenses, the additional amount withdrawn is subject to tax and penalty.

Can I Move Assets From My Traditional or Roth IRA Into a CESA?

Unfortunately, no. You can, however, roll assets over from one CESA into a second CESA established for the same child. You can also roll CESA assets into a CESA for a different designated beneficiary if he/she is a member of the same family (as defined by law). That way, if a child decides not to pursue education, the responsible individual can roll over the CESA assets to the CESA of a relative who does.

Are Distributions Required?

The balance must be withdrawn within 30 days after the designated beneficiary's death or his/her 30th birthday, whichever is earlier. The age 30 distribution requirement does not apply to special needs individuals.

Can I Use CESA Assets Together With Other Forms of Education Funding?

Yes. The rules now allow CESA contributions even if there are same-year Qualified Tuition Program contributions for the same individual. As long as distributions and tax credits are for different expenses, parents can use the Hope Scholarship and Lifetime Learning tax credits in the same year as tax-free CESA distributions.

How Do I Open a CESA?

See any of our new account representatives. We will explain the nature of these accounts in more detail and help you complete the forms necessary to establish a CESA for a child.

This brochure is intended to provide general information on federal tax laws governing CESAs. It is not intended to provide legal advice or to be a detailed explanation of the rules or how such rules may apply to your individual circumstances. For specific information, you are encouraged to consult your tax or legal professional. IRS Publication 970, Tax Benefits for Higher Education, and the IRS's web site, www.irs.gov, may also provide helpful information.