



# Coverdell ESA Simplifier™

Coverdell Education Savings Account Application

ESA DESIGNATED BENEFICIARY'S NAME AND ADDRESS				ESA CUSTODIAN'S NAME, ADDRESS AND PHONE	
Social Security Number	Date of Birth	Home Phone	ESA Account Identification		
				<input type="checkbox"/> Check here if this is an amendment to an existing Coverdell Education Savings Account.	

DEPOSITOR'S NAME, ADDRESS AND PHONE		Contribution Date	Contribution Amount
Depositor's Social Security Number		Contribution Type	
		<input type="checkbox"/> Regular <input type="checkbox"/> Transfer <input type="checkbox"/> Rollover	

ESA RESPONSIBLE INDIVIDUAL				
A Responsible Individual must be designated below.				
Name and Address	Home Phone	Business Phone	Social Security Number	Relationship to Beneficiary
<p>Answer "Yes" or "No" to each of the following questions by checking the appropriate box. If a box is not checked for a question, the answer will be deemed to be "No".</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No The Responsible Individual may change the beneficiary designated under this agreement to another member of the Designated Beneficiary's family described in Section 529(e)(2) in accordance with the Custodian's procedures.</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No The Responsible Individual shall continue to serve as the Responsible Individual for the custodial account after the Designated Beneficiary attains the age of majority under state law and until such time as all assets have been distributed from the custodial account and the custodial account terminates. If the Responsible Individual becomes incapacitated or dies after the Designated Beneficiary reaches the age of majority under state law, the Responsible Individual shall be the Designated Beneficiary.</p>				

SUCCESSOR ESA RESPONSIBLE INDIVIDUAL				
In the event of the death or legal incapacity of the Responsible Individual while the Designated Beneficiary is a minor under state law, the following shall become the Responsible Individual. If no successor is named, the Successor Responsible Individual shall be the Designated Beneficiary's parent or guardian.				
Name and Address	Home Phone	Business Phone	Social Security Number	Relationship to Beneficiary

SIGNATURES			
<p><i>Important: Please read before signing. The signature of the Responsible Individual should be obtained if someone other than the Depositor will be the Responsible Individual.</i></p> <p>I understand the eligibility requirements for the type of ESA deposit I am making and I state that I do qualify to make the deposit. I have received a copy of the Application, 5305-EA Plan Agreement and Disclosure Statement. I understand that the terms and conditions which apply to this Coverdell Education Savings Account are contained in this Application and the 5305-EA Plan Agreement. I agree to be bound by those terms and conditions.</p> <p>I assume complete responsibility for:</p> <ol style="list-style-type: none"> <li>1. Determining that I am eligible to contribute to an ESA each year I make a contribution.</li> <li>2. Insuring that all contributions I make are within the limits set forth by the tax laws.</li> <li>3. Certifying that I am qualified to assume the responsibilities of the Responsible Individual as set forth in this Agreement, if I am designated on this Application as the Responsible Individual.</li> <li>4. Managing and administering the account and authorizing transactions involving contributions and distributions, if I am designated on this Application as the Responsible Individual.</li> </ol>			
_____ (ESA Depositor)	_____ (Date)	_____ (Witness)	_____ (Date)
_____ (ESA Responsible Individual)	_____ (Date)	_____ (Authorized Signature of Custodian)	_____ (Date)

# COVERDELL ESA (also known as Education IRA) CUSTODIAL ACCOUNT

Form 5305-EA Under Section 530 of the Internal Revenue Code

FORM (REV. JAN. 2000)

The Depositor whose name appears on the Application is establishing an Education Individual Retirement Custodial Account under Section 530 for the benefit of the Designated Beneficiary whose name appears on the Application exclusively to pay for the qualified higher education expenses, within the meaning of Section 530(b)(2), of such Designated Beneficiary.

The Custodian named on the Application has provided the Depositor with a concise statement disclosing the provisions governing Section 530. This disclosure statement must include an explanation of the statutory requirements applicable to, and the income tax consequences of establishing and maintaining an account under Section 530. Providing the Depositor with a copy of Notice 97-60, 1997-2 C.B. 310 is considered a sufficient disclosure statement. The Custodian also will provide a copy of this form and the disclosure statement to the Responsible Individual, as defined in article VI below, if the Responsible Individual is not the same person as the Depositor.

The Depositor has assigned the custodial account the sum indicated on the Application.

The Depositor and the Custodian make the following agreement:

## ARTICLE I

The Custodian may accept additional cash contributions. These contributions may be from the Depositor, or from any other individual, for the benefit of the Designated Beneficiary, provided the Designated Beneficiary has not attained the age of 18 as of the date such contributions are made. Total contributions that are not rollover contributions described in Section 530(d)(5) are limited to a maximum amount of \$500 for the taxable year.

## ARTICLE II

The maximum aggregate contribution that an individual may make to the custodial account in any year may not exceed the \$500 in total contributions that the custodial account can receive. In addition, the maximum aggregate contribution that an individual may make to the custodial account in any year is phased out for individuals who have modified adjusted gross income (AGI) between \$95,000 and \$110,000 for the year of the contribution (the phase-out range for married individuals who file joint returns is modified AGI between \$150,000 and \$160,000 for the year of the contribution). Individuals with modified AGI above \$110,000 for the year and married individuals who file joint returns and have modified AGI above \$160,000 for the year may not make a contribution for that year. Modified AGI is defined in Section 530(c)(2).

## ARTICLE III

No part of the custodial account funds may be invested in life insurance contracts, nor may the assets of the custodial account be commingled with other property except in a common trust fund or a common investment (within the meaning of section 530(b)(1)(D)).

## ARTICLE IV

1. Any balance to the credit of the Designated Beneficiary on the date on which such Designated Beneficiary attains age 30 shall be distributed to the Designated Beneficiary within 30 days of such date.
2. Any balance to the credit of the Designated Beneficiary shall be distributed within 30 days of the date of such Designated Beneficiary's death unless the designated death beneficiary is a Family Member of the Designated Beneficiary who is under the age of 30 on the date of death. In such a case, the Family Member shall become the Designated Beneficiary as the date of death.

## ARTICLE V

The Depositor shall have the power to direct the Custodian regarding the investment of the amount listed on the Application assigned to the custodial account (including earnings thereon) in the investment choices offered by the Custodian. The Responsible Individual, however, shall have the power to redirect the Custodian regarding the investment of such amounts, as well as the power to direct the Custodian regarding the investment of all additional contributions (including earnings thereon) to the custodial account. In the event that the Responsible Individual does not direct the Custodian regarding the investment of additional contributions (including earnings thereon), the initial investment direction of the Depositor also will govern all additional contributions made to the custodial account until such time as the Responsible Individual otherwise directs the Custodian. Unless otherwise provided in this Agreement, the Responsible Individual also shall have the power to direct the Custodian regarding the administration, management, and distribution of the account.

## ARTICLE VI

The Responsible Individual named by the Depositor shall be a parent or guardian of the Designated Beneficiary. The custodial account shall have only one Responsible Individual at any time. If the Responsible Individual becomes incapacitated or dies while the Designated Beneficiary is a minor under state law, the successor

Responsible Individual shall be the person named to succeed in that capacity by the preceding Responsible Individual in a witnessed writing or, if no successor is so named, the successor Responsible Individual shall be the Designated Beneficiary's other parent or successor guardian. Unless otherwise directed by checking the option on the Application, at the time that the Designated Beneficiary attains the age of majority under state law, the Designated Beneficiary becomes the Responsible Individual. If a Family Member under the age of majority under state law becomes the Designated Beneficiary by reason of being a named death beneficiary, the Responsible Individual shall be such Designated Beneficiary's parent or guardian.

## ARTICLE VII

*(See the Application and Section 11.04 of this Agreement for information regarding the Responsible Individual's ability to change the Designated Beneficiary named by the Depositor.)*

## ARTICLE VIII

1. The Depositor agrees to provide the Custodian with the information necessary for the Custodian to prepare any reports required under section 530(h).
2. The Custodian agrees to submit reports to the Internal Revenue Service and the Responsible Individual as prescribed by the Internal Revenue Service.

## ARTICLE IX

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through IV will be controlling. Any additional articles that are not consistent with Section 530 and related regulations will be invalid.

## ARTICLE X

This agreement will be amended from time to time to comply with the provisions of the Code and related regulations. Other amendments may be made with the consent of the Depositor and the Custodian whose signatures appear on the Application.

## ARTICLE XI

- 11.01 *Notices And Change Of Address:* Any required notice regarding this Education IRA will be considered effective when the Custodian mails it to the last address of the intended recipient which the Custodian has in its records. Any notice to be given to the Custodian will be considered effective when the Custodian actually receives it. The Responsible Individual must notify the Custodian of any change of address.
- 11.02 *Representations And Responsibilities:* The Depositor and the Responsible Individual represent and warrant to the Custodian that any information the Depositor and Responsible Individual have given or will give the Custodian with respect to this Agreement is complete and accurate. Further, the Depositor and the Responsible Individual agree that any directions they give the Custodian, or action they take will be proper under this Agreement and that the Custodian is entitled to rely upon any such information or directions. The Custodian shall not be liable for acting upon any instructions given by the Responsible Individual named on the Application prior to the time the Custodian receives appropriate written notice that the Designated Beneficiary has met the requirements for assuming control of the Education IRA, or that a new Responsible Individual has been appointed. The Custodian shall not be responsible for losses of any kind that may result from the Depositor's and Responsible Individual's directions to it or the Depositor's and Responsible Individual's actions or failures to act. The Depositor and Responsible Individual agree to reimburse the Custodian for any loss the Custodian may incur as a result of such directions, actions or failures to act. The Custodian has no duty to determine whether the contributions or distributions with respect to this Education IRA comply with the Code, regulations, rulings or this Agreement and shall not be responsible for any penalties, taxes, judgments or expenses of the Designated Beneficiary or any Depositor to this Education IRA.

Notwithstanding anything in this Agreement to the contrary, the Custodian may establish a policy permitting someone other than the Designated Beneficiary's parent or legal guardian to serve as Responsible Individual, provided the individual is not prohibited by law from serving in that capacity and fulfilling his or her obligations under this Agreement.

- 11.03 *Service Fees:* The Custodian has the right to charge an annual service fee or other designated fees (for example, a transfer, rollover or termination fee) for maintaining this Education IRA. In addition, the Custodian has the right to be reimbursed for all reasonable expenses incurred in connection with the administration of this Education IRA. The Custodian may charge the Designated Beneficiary separately for any fees or expenses or may deduct the amount of the fees or expenses from the assets in this Education IRA at the Custodian's discretion. The Custodian reserves the right to charge any additional fee upon 30 days notice to the Responsible Individual that the fee will be effective.

Any brokerage commissions attributable to the assets in the Education IRA will be charged to the Education IRA. The Responsible Individual, Depositor or Designated Beneficiary cannot reimburse the Education IRA for those commissions.

#### 11.04 *Beneficiary(ies)*:

1. Unless indicated otherwise on the Application, the Responsible Individual may not change the Designated Beneficiary. If the Depositor has indicated on the Application that the Responsible Individual may change the beneficiary designated under this Agreement and the Responsible Individual chooses to do so, the Responsible Individual must designate a member of the family (as defined in Section 529(e)(2)) of the existing Designated Beneficiary. This designation can only be made on a form prescribed by the Custodian.

2. The Depositor may name one or more person or entity as death beneficiary of this Education IRA. This designation can only be made on a form prescribed by the Custodian and it will only be effective when it is filed with the Custodian during the lifetime of the Designated Beneficiary. Each beneficiary designation filed with the Custodian will cancel all previous ones unless the beneficiary designation specifies otherwise. The consent of a death beneficiary shall not be required in order to revoke a death beneficiary designation. If a death beneficiary is not designated with respect to this Education IRA, the Designated Beneficiary's estate will be the death beneficiary.

11.05 *Termination*: Either the Custodian or the Responsible Individual may terminate this Agreement at any time by giving written notice to the other. The Custodian can resign as Custodian at any time effective 30 days after mailing written notice of its resignation to the Responsible Individual. Upon receipt of that notice, the Responsible Individual must make arrangements to transfer the Education IRA to another financial organization. If the Responsible Individual does not complete a transfer of the Education IRA within 30 days from the date the Custodian mails the notice to the Responsible Individual, the Custodian has the right to transfer the Education IRA assets to a successor Education IRA trustee or custodian that the Custodian chooses in its sole discretion or the Custodian may pay the Education IRA balance to the Designated Beneficiary in a single sum. The Custodian shall not be liable for any actions or failures to act on the part of any successor trustee or custodian nor for any tax consequences the Designated Beneficiary may incur that result from the transfer or distribution of the Education IRA assets pursuant to this section.

If this Agreement is terminated, the Custodian may hold back from the Education IRA a reasonable amount of money that it believes is necessary to cover any one or more of the following:

- \* any fees, expenses or taxes chargeable against the Education IRA;
- \* any penalties associated with the early withdrawal of any savings instrument or other investment in the Education IRA.

If the Custodian is merged with another organization (or comes under the control of any Federal or State agency) or if the entire organization (or any portion which includes the Education IRA) is bought by another organization, that organization (or agency) shall automatically become the trustee or custodian of the Education IRA, but only if it is the type of organization authorized to serve as an Education IRA trustee or custodian.

If the Custodian is required to comply with Section 1.408-2(e) of the Treasury Regulations and fails to do so, or the Custodian is not keeping the records, making the returns or sending the statements as are required by forms or regulations, the IRS may, after notifying the Responsible Individual or the Designated Beneficiary, require that a substitute trustee or custodian be appointed.

11.06 *Amendments*: The Custodian shall have the right to amend this Agreement at any time. Any amendment the Custodian makes to comply with the Code and related regulations does not require the consent of either the Responsible Individual or the Depositor. Notwithstanding anything in this Agreement to the contrary, other amendments may be made with the consent of the Responsible Individual. The Responsible Individual will be deemed to have consented to any other amendment unless, within 30 days from the date the Custodian mails the amendment, the Responsible Individual notifies the Custodian in writing that the Responsible Individual does not consent.

11.07 *Transfers From Other Plans*: The Custodian can receive amounts transferred to the Education IRA from the trustee or custodian of another Education IRA.

11.08 *Liquidation Of Assets*: The Custodian has the right to liquidate assets in the Education IRA if necessary to make distributions or to pay fees, expenses or taxes properly chargeable against the Education IRA. If the Responsible Individual fails to direct the Custodian as to which assets to liquidate, the Custodian will decide in its complete and sole discretion and the Responsible Individual agrees not to hold the Custodian liable for any adverse consequences that result from the Custodian's decision.

11.09 *Restrictions On The Fund*: Neither the Responsible Individual, the Designated Beneficiary (nor anyone acting on behalf of the Designated Beneficiary), the Depositor nor any contributor may sell, transfer or pledge any interest in the Education IRA in any manner whatsoever, except as provided by law or this Agreement.

The assets in the Education IRA shall not be responsible for the debts, contracts or torts of the Responsible Individual, the Designated Beneficiary, the Depositor or any person entitled to distributions under this Agreement.

11.10 *What Law Applies*: This Agreement is subject to all applicable Federal and State laws and regulations. If it is necessary to apply any State law to interpret and administer this Agreement, the law of the Custodian's domicile shall govern.

If any part of this Agreement is held to be illegal or invalid, the remaining parts shall not be affected. Neither the Responsible Individual's nor the Custodian's failure to enforce at any time or for any period of time any of the provisions of this Agreement shall be construed as a waiver of such provisions, or the parties' right thereafter to enforce each and every such provision.

## INSTRUCTIONS

*(Section references are to the Internal Revenue Code unless otherwise noted.)*

### PURPOSE OF FORM

Form 5305-EA is a model custodial account agreement that meets the requirements of Section 530(a) and has been automatically approved by the IRS. An education individual retirement account (Ed IRA) is established after the form is fully executed by both the Depositor and the Custodian. This account must be created in the United States for the exclusive purpose of paying the qualified higher education expenses of an individual who is the Designated Beneficiary.

If the model account is a trust account, get Form 5305-E, Education Individual Retirement Trust Account.

Do not file Form 5305-EA with the IRS. Instead, keep it for your records.

For more information, including information about the required disclosure you must get from your Custodian, see Notice 97-60, 1997-2 C.B. 310.

### DEFINITIONS

*Custodian*: The Custodian must be a bank or savings and loan association, as defined in Section 408(n), or any person who has the approval of the IRS to act as Custodian. Any person who may serve as a Custodian of a Traditional IRA may serve as the Custodian of an Ed IRA.

*Depositor*: The Depositor is the person who establishes the custodial account.

*Designated Beneficiary*: The Designated Beneficiary is the individual on whose behalf the custodial account has been established.

*Family Member*: Family Members of the Designated Beneficiary include the spouse of such Designated Beneficiary. Family Members also include a child, grandchild, sibling, parent, niece or nephew, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Designated Beneficiary, and the spouse of any such individual.

*Responsible Individual*: The Responsible Individual, generally, is a parent or guardian of the Designated Beneficiary. However, under certain circumstances, the Responsible Individual may be the Designated Beneficiary.

### IDENTIFICATION NUMBERS

The Depositor's and Designated Beneficiary's social security numbers will serve as their identification numbers. If the Depositor is a nonresident alien and does not have an identification number, write "Foreign" in the block where the number is requested. The Designated Beneficiary's social security number is the identification number of his or her Ed IRA. If the Designated Beneficiary is a nonresident alien, the Designated Beneficiary's individual taxpayer identification number is the identification number of his or her Ed IRA. An employer identification number (EIN) is required only for an Ed IRA for which a return is filed to report unrelated business income. An EIN is required for a common fund created for Ed IRAs.

## SPECIFIC INSTRUCTIONS

*Article XI*: Article XI and any that follow may incorporate additional provisions that are agreed to by the Depositor and Custodian to complete the agreement. They may include, for example, provisions relating to: definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the Custodian, Custodian's fees, state law requirements, treatment of excess contributions, and prohibited transactions with the Depositor, Designated Beneficiary, or Responsible Individual, etc. Use additional pages as necessary and attach them to this form.

*Optional Provisions in Article VI and Article VII*: Form 5305-EA may be reproduced in a manner that provides only those optional provisions offered by the Custodian.

**Note**: Form 5305-EA may be reproduced and reduced in size for adaption to passbook purposes.

## DISCLOSURE STATEMENT

The following is an excerpt from IRS Notice 97-60 addressing Education IRAs.

Beginning January 1, 1998, taxpayers may deposit up to \$500 per year into an Education IRA for a child under age 18. Parents, grandparents, other family members, friends, and a child him/herself may contribute to the child's Education IRA, provided that the total contributions for the child during the taxable year do not exceed the \$500 limit. Amounts deposited in the account grow tax-free until distributed, and the child will not owe tax on any withdrawal from the account if the child's qualified higher education expenses at an eligible educational institution for the year equal or exceed the amount of the withdrawal. If the child does not need the money for postsecondary education, the account balance can be rolled over to the Education IRA of certain family members who can use it for their higher education. Amounts withdrawn from an Education IRA that exceed the child's qualified higher education expenses in a taxable year are generally subject to income tax and to an additional tax of 10 percent. The Hope Scholarship Credit and Lifetime Learning Credit may not be claimed for a student's expenses in a taxable year in which the student takes a tax-free withdrawal from an Education IRA.

**Q1: What is an Education IRA?**

**A1:** An Education IRA is a trust or custodial account that is created or organized in the United States exclusively for the purpose of paying the qualified higher education expenses of the Designated Beneficiary of the account. The account must be designated as an Education IRA when it is created in order to be treated as an Education IRA for tax purposes.

**Q2: For whom may an Education IRA be established?**

**A2:** An Education IRA may be established for the benefit of any child under age 18. Contributions to the Education IRA will not be accepted after the Designated Beneficiary reaches his/her 18th birthday.

**Q3: Where may an individual open an Education IRA?**

**A3:** An individual may open an Education IRA with any bank, or other entity that has been approved to serve as a nonbank trustee or custodian of an individual retirement account (IRA), and the bank or entity is offering education IRAs. Other entities that wish to offer Education IRAs but are not approved to serve as IRA trustees or custodians may seek approval by following the same IRS procedures used for approval of other IRA nonbank trustees. See Notice 97-57, 1997-43 I.R.B. (October 27, 1997).

**Q4: When may a taxpayer start contributing to an Education IRA for a child?**

**A4:** A taxpayer may start making contributions on January 1, 1998, or at any time thereafter.

**Q5: How much may be contributed to a child's Education IRA?**

**A5:** Up to \$500 per year in aggregate contributions may be made for the benefit of any child. The contributions may be placed in a single Education IRA or in multiple Education IRAs.

**Q6: What happens if more than \$500 is contributed to an Education IRA on behalf of a child in a calendar year?**

**A6:** Aggregate contributions for the benefit of a particular child in excess of \$500 for a calendar year are treated as excess contributions. If the excess contributions (and any earnings attributable to them) are not withdrawn from the child's account (or accounts) before the tax return for the year is due, the excess contributions are subject to a 6 percent excise tax for each year the excess amount remains in the account.

**Q7: May contributions other than cash be made to a child's Education IRA?**

**A7:** No. Education IRAs are permitted to accept contributions made in cash only.

**Q8: May contributors take a deduction for contributions made to an Education IRA?**

**A8:** No.

**Q9: Are there any restrictions on who can contribute to an Education IRA?**

**A9:** Any individual may contribute up to \$500 to a child's Education IRA if the individual's modified adjusted gross income for the taxable year is no more than \$95,000 (\$150,000 for married taxpayers filing jointly). (See Q&A23 for a description of modified adjusted gross income.) The \$500 maximum contribution per child is gradually reduced for individuals with modified adjusted gross income between \$95,000 and \$110,000 (between \$150,000 and \$160,000 for married taxpayers filing jointly). For example, an unmarried taxpayer with modified adjusted gross income of \$96,500 in a taxable year could make a maximum contribution per child of \$450 for that year. Taxpayers with modified adjusted gross income above \$110,000 (\$160,000 for married taxpayers filing jointly) cannot make contributions to anyone's Education IRA.

**Q10: May a child contribute to his/her own Education IRA?**

**A10:** Yes.

**Q11: Does a taxpayer have to be related to the Designated Beneficiary in order to contribute to the Designated Beneficiary's Education IRA?**

**A11:** No.

**Q12: How many Education IRAs may a child have?**

**A12:** There is no limit on the number of Education IRAs that may be established designating a particular child as beneficiary. However, in any given taxable year the total aggregate contributions to all the accounts designating a particular child as beneficiary may not exceed \$500.

**Q13: May a Designated Beneficiary take a tax-free withdrawal from an Education IRA to pay qualified higher education expenses if the Designated Beneficiary is enrolled less than full-time at an eligible educational institution?**

**A13:** Yes. Whether the Designated Beneficiary is enrolled full-time, half-time or less than half-time, he/she may take a tax-free withdrawal to pay qualified higher education expenses.

**Q14: What happens when a Designated Beneficiary withdraws assets from an Education IRA to pay for college?**

**A14:** Generally, the withdrawal is tax-free to the Designated Beneficiary to the extent the amount of the withdrawal does not exceed the Designated Beneficiary's qualified higher education expenses.

**Q15: What are "qualified higher education expenses?"**

**A15:** "Qualified higher education expenses" mean expenses for tuition, fees, books, supplies, and equipment required for the enrollment or attendance of the Designated Beneficiary at an eligible educational institution. Qualified higher education expenses also include amounts contributed to a qualified state tuition program. Qualified higher education expenses also include room and board (generally the school's posted room and board charge, or \$2,500 per year for students living off-campus and not at home) if the Designated Beneficiary is at least a half-time student at an eligible educational institution. The standards for determining whether a student is enrolled at least half-time are the same as those used for the Hope Scholarship Credit.

**Q16: What is an eligible educational institution?**

**A16:** An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution that is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088) and, therefore, eligible to participate in the student aid programs administered by the Department of Education. This category includes virtually all accredited public, nonprofit, and proprietary postsecondary institutions. (The same eligibility requirements for institutions apply for the Hope Scholarship Credit, the Lifetime Learning Credit, and early withdrawals from IRAs for qualified higher education expenses.)

**Q17: What happens if a Designated Beneficiary withdraws an amount from an Education IRA but does not have any qualified higher education expenses to pay in the taxable year he/she makes the withdrawal?**

**A17:** Generally, if a Designated Beneficiary withdraws an amount from an Education IRA and does not have any qualified higher education expenses during the taxable year, a portion of the distribution is taxable. The taxable portion is the portion that represents earnings that have accumulated tax-free in the account. The taxable portion of the distribution is also subject to a 10 percent additional tax unless an exception applies.

**Q18: Is a distribution from an Education IRA taxable if the distribution is contributed to another Education IRA?**

**A18:** Any amount distributed from an Education IRA and rolled over to another Education IRA for the benefit of the same Designated Beneficiary or certain members of the Designated Beneficiary's family is not taxable. An amount is rolled over if it is paid to another Education IRA on a date within 60 days after the date of the distribution. Members of the Designated Beneficiary's family include the Designated Beneficiary's children and their descendants, stepchildren and their descendants, siblings and their children, parents and grandparents, stepparents, and spouses of all the foregoing. The \$500 annual contribution limit to Education IRAs does not apply to these rollover contributions. For example, an older brother who has \$2,000 left in his Education IRA after he graduates from college can roll over the full \$2,000 balance to an Education IRA for his younger sister who is still in high school without paying any tax on the transfer.

**Q19: What happens to the assets remaining in an Education IRA after the Designated Beneficiary finishes his/her postsecondary education?**

**A19:** There are two options. The amount remaining in the account may be withdrawn for the Designated Beneficiary. The Designated Beneficiary will be subject to both income tax and the additional 10 percent tax on the portion of the amount withdrawn that represents earnings if the Designated Beneficiary does not have any qualified higher education expenses in the same taxable year he/she makes the withdrawal. Alternatively, if the amount in the Designated Beneficiary's Education IRA is withdrawn and rolled over (as described in Q&A18 of this section) to another Education IRA for the benefit of a member of the Designated Beneficiary's family, the amount rolled over will not be taxable.

**Q20: Rather than rolling over money from one Education IRA to another, may the Designated Beneficiary of the account be changed from one child to another without triggering a tax?**

**A20:** Yes, provided (1) the terms of the particular trust or custodial account permit a change in Designated Beneficiaries (each trustee or custodian will control whether options like this one are available in the accounts they offer), and (2) the new Designated Beneficiary is a member of the previous Designated Beneficiary's family. (See Q&A18 in this section.)

**Q21: May a student or the student's parents claim the Hope Scholarship Credit or Lifetime Learning Credit for the student's expenses in a taxable year in which the student receives money from an Education IRA on a tax-free basis?**

**A21:** No. If a student is receiving a tax-free distribution from an Education IRA in a particular taxable year none of that student's expenses may be claimed as the basis for a Hope Scholarship Credit or Lifetime Learning Credit for that year. However, the student may waive the tax-free treatment of the Education IRA distribution and elect to pay any tax that would otherwise be owed on an Education IRA distribution so that the student or the student's parents may claim a Hope Scholarship Credit or Lifetime Learning Credit for expenses paid in the same year the Education IRA distributions are received.

**Q22: May contributions be made to both a qualified state tuition program and an Education IRA on behalf of the same Designated Beneficiary in the same taxable year?**

**A22:** No. Any amount contributed to an Education IRA on behalf of a Designated Beneficiary during any taxable year in which an amount is also contributed to a qualified state tuition program on behalf of the same beneficiary will be treated as an excess contribution to the Education IRA. (See Q&A6 in this section for the treatment of excess contributions.)

**Q23: How does a taxpayer know what his/her "modified adjusted gross income" is?**

**A23:** For most taxpayers, modified adjusted gross income is the same as adjusted gross income. Taxpayers compute adjusted gross income as part of completing a Federal income tax return. For those few taxpayers who earn income abroad or received income from certain American territories or possessions, modified adjusted gross income will be greater than adjusted gross income. In those cases, the individual's adjusted gross income will be increased by: (1) certain amounts that the individual earns abroad, (2) amounts effectively connected with the individual's conduct of a trade or business or derived from sources in Guam, American Samoa, or the Northern Mariana Islands (if the individual is a resident of the possession where the source of the income is located), and (3) amounts derived from sources in Puerto Rico (if the individual is a Puerto Rican resident).

## AMENDMENT TO YOUR COVERDELL EDUCATION SAVINGS ACCOUNT (ESA)

This Coverdell Education Savings Account (ESA) disclosure statement amendment updates your ESA documents. Specifically, the information updates your ESA disclosure statement for recent law changes resulting from the Economic Growth and Tax Relief Reconciliation Act of 2001.

**Q1: What is the new name for the Education IRA?**

**A1:** Effective July 26, 2001, the new name for the Education IRA is Coverdell Education Savings Account (ESA).

**Q2: Will the contribution amount for Education Savings Accounts (ESAs) be modified?**

**A2:** Beginning in 2002 the maximum aggregate contribution to any Education Savings Account is increased to \$2,000 per year for the benefit of any child.

**Q3: What is the new modified adjusted gross income limitation (MAGI) for married taxpayers?**

**A3:** Married taxpayers filing joint returns may make the maximum \$2,000 contribution per designated beneficiary when their joint MAGI is \$190,000 or less. The \$2,000 limit is reduced and gradually phased out for joint filers when their combined MAGI is between \$190,000 and \$220,000. When their combined MAGI is \$220,000 or more, married individuals filing joint returns may not fund an Education Savings Account.

**Q4: What is the deadline for making an ESA contribution?**

**A4:** The deadline for making contributions to an ESA for 2002 and beyond is now the contributor's tax return due date, not including any extensions.

**Q5: What happens if contributions to an ESA are more than the allowable limit?**

**A5:** If a designated beneficiary receives contributions that exceed the allowable limit, the excess contribution must be removed in order to avoid any penalties. Beginning with tax year 2002, to avoid a 6% excess contribution penalty, the excess contribution plus earnings must be removed from the ESA before the first day of the sixth month following the taxable year (i.e. May 31).

**Q6: In addition to post-secondary education expenses, what types of education expenses may the ESA funds be used for?**

**A6:** Education savings account funds may now be used for elementary and secondary school education expenses beginning in tax year 2002. This includes expenses at any school that provides education as determined under state law (public, private or parochial schools). Such expenses may include tuition fees, academic tutoring, special needs services, books, supplies, equipment, room and board expenses, uniforms, transportation, educational computer technology or equipment and Internet access.

**Q7: Is there an age limitation for contributions and/or distributions regarding an ESA?**

**A7:** Yes, however, the new law will waive age limitations regarding contributions and distributions for children with special needs beginning in 2002. Therefore, contributions may be made to an ESA on behalf of a child who has special needs after the child turns 18, the funds will no longer be required to be distributed when the child turns 30, and the age-30 limitation will not apply to rollover contributions to that child's ESA.

**Q8: Are there any changes in the taxation of ESA distributions in relation to other education credits that the designated beneficiary may receive?**

**A8:** Beginning in 2002, a designated beneficiary may claim a Hope or Lifetime Learning Credit in the same taxable year that a tax-free contribution from an ESA is claimed, as long as the distribution(s) does not cover the same expenses claimed for the Hope or Lifetime Learning Credit.

In addition, beginning in 2002, contributions will be able to be made to an ESA and a qualified tuition program in the same year on behalf of the same designated beneficiary without penalty.

**Q9: Can a business contribute to an ESA?**

**A9:** The new law clarifies that an "entity" (e.g. a corporation or tax-exempt organization) may also contribute to ESAs, and unlike the case of individuals who contribute, there are no income limitations for that entity.