

Coverdell Education Savings Accounts

A Coverdell Education Savings Account is an account created as an incentive to help parents and students save for education expenses.

The total contributions for the beneficiary of this account cannot be more than \$2,000 in any year, no matter how many accounts have been established. A beneficiary is someone who is under age 18 or is a special needs beneficiary.

The beneficiary will not owe tax on the distributions if they are less than a beneficiary's qualified education expenses at an eligible institution. This benefit applies to higher education expenses as well as to elementary and secondary education expenses.

Here are some things to remember about Distributions from Coverdell Accounts:

- Distributions are tax-free as long as they are used for qualified education expenses, such as tuition, books and fees
- There is no tax on distributions if they are for an eligible educational institution. This includes any public, private or religious school that provides elementary or secondary education as determined under state law
- The Hope and lifetime learning credits can be claimed in the same year the beneficiary takes a tax-free distribution from a Coverdell ESA, as long as the same expenses are not used for both benefits
- If the distribution exceeds education expenses, a portion will be taxable to the beneficiary and will be subject to an additional 10% tax. Exceptions to the additional 10% tax include the death or disability of the beneficiary or if the beneficiary receives a qualified scholarship
- There are contribution limits for taxpayers based on the taxpayer's Modified Adjusted Gross Income. Contributions to a Coverdell ESA may be made until the due date of the contributor's return, without extensions.
- If there is a balance in the Coverdell ESA at the time the beneficiary reaches age 30, it must be distributed within 30 days. A portion representing earnings on the account will be taxable and subject to the additional 10% tax. The beneficiary may avoid these taxes by rolling over the full balance to another Coverdell ESA for another family member.

For more information, see IRS Publication 970, Tax Benefits for Higher Education, available at IRS.gov or by calling 1-800-TAX-FORM (1-800-829-3676)