Contributing to a child's ESA will help jump-start his savings—and give him tax-free money later—to pay for education expenses.

With an ESA, individuals can make annual nondeductible contributions on behalf of a child until the child reaches age 18*. The earnings generated remain tax deferred while in the ESA. When the child uses the ESA assets to pay for qualified education expenses, the contributions and the earnings come out tax free.

Anyone—family member or nonfamily member—can contribute to a child's ESA, as long as their modified adjusted gross income (MAGI) is less than or within the applicable IRS limits.

MAGI Limits	
Single filer:	$95,000–$110,000
Married, joint filer:	$190,000–$220,000

Those whose MAGI exceeds the limits cannot contribute to an ESA for that year. Businesses also may contribute and are not subject to the MAGI limits.

To find out if contributing to an ESA is right for your situation, you may want to seek competent tax advice.

For More Information

We'd be happy to answer your Coverdell ESA questions.

Star One Credit Union
PO Box 3643 • Sunnyvale, CA 94088-3643
408-543-5202 • 866-543-5202 • www.starone.org

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Coverdell ESAs

Help the child in your life achieve a bright future.

A Coverdell education savings account (ESA) may be an easy way to start saving for a child's education.

Are you considering a Coverdell ESA but have questions? We have the answers.

Q. What is an ESA?

A. An ESA can help you save for a child's education expenses—such as tuition, fees, books, supplies, equipment, and, in some cases, room and board.

Q. How much can I contribute to an ESA?

A. Depending on your income, you may be able to contribute up to $2,000 per child. Each child may receive no more than $2,000 per year in ESA contributions. Thus, if more than one person is making ESA contributions for the same child, they may need to coordinate to ensure that the child's total contributions in one year do not exceed $2,000.

Q. What is the annual deadline to contribute?

A. You have until the due date for filing your federal income tax return for the year to contribute to an ESA (generally April 15).

Q. Who is in charge of the ESA?

A. Every ESA must have a "responsible individual" who oversees the account, directs the investments within the account, decides when to withdraw money, and decides if and when to transfer or roll over the assets to another eligible family member's ESA. Generally, the responsible individual is the child's parent or legal guardian. The child may serve as the responsible individual after becoming an adult.

Q. Can ESA assets be moved to another type of tax-advantaged savings account?

A. Assets can be transferred or rolled over from one ESA to another ESA for the same child or an eligible family member of the child. There is no time limit for executing a transfer, but rollovers between ESAs must be completed within 60 days, and only one rollover is permitted every 12 months.

Also, ESA distributions are tax-free if contributed to a 529 plan for the same child or eligible family member.

Q. Can other types of assets be moved to an ESA?

A. Assets from IRAs, employer-sponsored retirement plans, and 529 plans cannot be rolled over to ESAs. Military death benefit gratuities or Servicemembers' Group Life Insurance payments may be rolled over to an ESA if completed within one year from receipt.

Q. Who is considered an eligible family member for purposes of a transfer or rollover?

A. An eligible family member must be under the age of 30* and can either be the child's spouse, sibling, niece, nephew, parent, aunt, uncle, child, grandchild, in-law, or first cousin.

Q. When can ESA assets be withdrawn?

A. Money can be withdrawn from a child's ESA at any time, without restriction, and is tax-free if used for qualified education expenses.

Q. What are qualified education expenses?

A. Qualified higher education expenses include:

- Tuition and fees, books, supplies, and equipment that are *required* for enrollment
- Room and board (subject to limits) for students enrolled at least half-time
- Computer technology, equipment, Internet access, and related services used by the student during any of the years the student is enrolled

Qualified elementary and secondary education expenses include:

- Tuition and fees, books, supplies, and equipment, academic tutoring, and special needs services *incurred* in connection with enrollment or attendance
- Room and board, uniforms, transportation, and supplementary items *required* or provided by school in connection with attendance or enrollment
- Computer technology, equipment, Internet access, and related services used by student and student's family during any of the years the student is enrolled

Q. What if amounts withdrawn from an ESA are not used to pay for qualified education expenses?

A. Any distributed amounts in excess of the child's qualified education expenses may be subject to tax and penalty. The child must include the earnings attributable to the excess distribution in her gross income for the year and pay a 10 percent penalty tax on the taxable earnings, unless an exception applies, such as death or disability.

Q. How does contributing to an ESA affect other education savings incentives or academic scholarships?

A. Contributions can be made on behalf of the same child to both an ESA and a 529 plan. A child also can receive tax-free distributions from an ESA in the same year he claims the lifetime learning or American opportunity tax credits, but the same expenses cannot be claimed for more than one of these tax benefits. Also, any scholarship money a child receives is deducted from the allowable expenses for the ESA.

Q. What happens to the ESA if a child doesn't use the money?

A. If a child does not use her ESA money before she turns 30,* the unused portion can be transferred or rolled over to another eligible family member's ESA. Any money remaining in the ESA when the child turns 30 will be distributed and taxable to the child.

*Age limit does not apply to special needs individuals.