

COVERDELL EDUCATION SAVINGS ACCOUNT (ESA)

The Coverdell Education Savings Account (ESA) is an account used to fund future educational expenses. Earnings in these accounts grow tax-deferred and proceeds can be withdrawn tax-free if used for qualified education expenses. There are two parties to an ESA – the parent or guardian and the minor.

FEATURES

CONTRIBUTIONS

For 2015, the maximum contribution to an ESA is \$2,000 and is made with after-tax dollars. The deadline to make these contributions is the tax filing deadline (including extensions) for the year in which the contribution was made.

ELIGIBILITY

For single and head of household filers, if their adjusted gross income (AGI) is under \$95,000, they are able to contribute the full \$2,000. If their AGI is between \$95,000 and \$110,000, the amount is reduced, and for AGIs over \$110,000, they are no longer eligible to contribute. For joint filers, they can contribute the maximum amount if their AGI is under \$190,000. Between \$190,000 and \$220,000, the amount is reduced, and for AGIs over \$220,000, they are no longer eligible to contribute to this plan.

DISTRIBUTIONS

Withdrawals from an ESA can be accessed tax-free if they are used for qualified education expenses which include tuition, books, room and board, etc. for schooling which include all levels of education (elementary, secondary, undergraduate, graduate, and vocational training). Distributions not used for qualified education expenses are subject to ordinary income taxes plus a 10% federal tax penalty on earnings, except in cases of death or disability of the beneficiary.

ROLLOVERS

Rollovers are permitted from one ESA to another, as long as the beneficiaries are within the same family. Once the beneficiary reaches age 30, the account balance must be either distributed or rolled over to a new beneficiary within 30 days.

INVESTMENT OPTIONS

There are no limitations to the investment options available within an ESA.

FINANCIAL AID

Only 5.6% of Coverdell ESA's value is considered to be the parents' or guardians' assets thereby preserving potential financial aid benefits for the minor.

This material is for informational purposes only. The information expressed in this document is as of the date of its publication and is subject to change. Please contact your financial advisor regarding the application of these issues to your business and individual circumstances.