



2019.20 Training

Subject: Understanding the Rules and Benefits of a Coverdell ESA | Talking

Table Of Contents

[What is a Coverdell Education Savings Account \(ESA\)?](#)

[Coverdell ESA vs. 529 Plan: how they differ](#)

[Are there any income limits for Coverdell ESAs?](#)

[Where can I open a Coverdell ESA?](#)

[How can I withdraw money from a Coverdell ESA?](#)

[Are Coverdell ESA contributions and distributions tax-deductible?](#)

[Can Coverdell ESAs be transferred or rolled over?](#)



2019.20 Training

Subject: Understanding the Rules and Benefits of a Coverdell ESA | Talking

What is a Coverdell Education Savings Account (ESA)?

A Coverdell ESA is an investment account for students. Money in a Coverdell ESA can be used to cover future education costs, whether related to primary and secondary education or college and university. Contributions are not tax-deductible, but distributions from the account are tax-free if they don't amount to more than the beneficiary's adjusted qualified education expenses for the year. Any individual (including the child) can contribute to the account during the year if their income is below \$110,000, or \$220,000 if filing a joint return. Beneficiaries must be under age 30 to use the Coverdell funds with no tax consequence. If a beneficiary is reaching age 30, the funds can be rolled over to a new, younger relative.

Coverdell ESA vs. 529 Plan: how they differ

Until the Tax Cuts and Jobs Act (TCJA or tax reform), was passed in late 2017, 529 Plans, or Quality Tuition Programs (QTPs) could only be used for post-K-12 education. Now, both QTPs and Coverdell accounts can be used for K-12 education, as well as college and university.

A major difference between a QTP account and a Coverdell account has to do with the age limit of these accounts' beneficiaries. Money from a Coverdell account must be used by the time the beneficiary is 30 years old. While the IRS has no age limit for beneficiaries of QTPs, most states do. For both types of plan, the account custodian can rollover funds to a new beneficiary tax-free. Under Tax Reform a QTP account can now be rolled over to an ABLE account for qualified disabled beneficiaries.

Coverdell accounts have a limited total annual contribution of \$2,000 per beneficiary. QTPs generally do not place a cap on annual contributions, however, contributions are capped at

the amount of the education benefit. Also, an individual's income can affect the ability to contribute to a Coverdell account but not to QTPs.

Are there any income limits for Coverdell ESAs?

Taxpayers can only contribute to a Coverdell when their income is less than \$110,000, or \$220,000 if filing a joint return.

Where can I open a Coverdell ESA?

Any family member can open a Coverdell account at any bank, financial institution, or brokerage firm that handles such accounts. You will need proof of the beneficiary's birth, name, and Social Security number.

How can I withdraw money from a Coverdell ESA?

You must complete a form at the institution that handles the Coverdell. The form asks for the name, address, and social security number of the beneficiary and custodian. Only the beneficiary, legal guardian (including a parent), or the custodian can withdraw money from the account.

Are Coverdell ESA contributions and distributions tax-deductible?

Contributions to a Coverdell account are not tax-deductible. Earnings on the account are not taxable. The distributions from a Coverdell are tax-exempt as long as they are used to cover qualifying education expenses. Qualified expenses are the cost of attending a school or for a special needs beneficiary and include; tuition and fees, books, supplies, and required materials for a course of study.

Can Coverdell ESAs be transferred or rolled over?

You can roll over the money in a Coverdell account to another Coverdell or another beneficiary.