

Educational IRA

What Is The Coverdell Education Savings Account (ESA)?

Formerly called the Education IRA, the Coverdell Education Savings Account (ESA) is a type of tax-advantaged savings account created by the Taxpayer Relief Act of 1997 specifically for paying qualified higher education expenses.

Are Earnings Taxable?

All distributions of earnings are tax-free and can be withdrawn at any time, either in total or partially as needed, if they are used for qualified education expenses. Any balance remaining in the account when the beneficiary turns 30 must be distributed or rolled over to a new account for the benefit of another family member. If the balance is not distributed or rolled over, the earnings portion is included in income and is subject to a 10% penalty tax.

How Much Can I Contribute To An Education Savings Account?

Any one beneficiary (student) may have only \$2,000 contributed on his or her behalf for any given year, regardless of the number of ESAs of which he or she is the beneficiary. Contributing to an ESA in no way affects your ability to contribute to your own Traditional IRA or Roth IRA.

What Is The Age Limit For Contributions To An Education Savings Account?

No contributions are allowed after the account beneficiary reaches age 18. *Contributions are permitted after age 18 for special needs children.

Is There A Penalty If Funds Are Not Used For The Account Beneficiary's Education?

Any distributions of earnings not used for qualified education expenses are subject to taxes and to a 10% penalty, as well.

What Is The Deadline For Contributions?

You can open or make contributions to your ESA any time up to and including the due date of your tax return for the previous tax year, normally April 15th.

Can I Roll Funds From A Roth Or Traditional IRA Into An Education Savings Account?

No, rollovers from a Roth or Traditional IRA into an ESA are not allowed.

If I Contribute To An Education Savings Account, Can I Still Contribute To A Traditional Or Roth IRA?

Yes. As long as you are eligible, you may contribute up to the combined full amount allowed to a Traditional and or a Roth IRA and up to \$2,000 to each of your children's ESA annually.

When Can I Withdraw Funds From An Education Savings Account?

As the responsible individual, you can withdraw funds at any time. However, to avoid tax consequences from the withdrawal, you must use the funds to pay for qualified expenses for (the IRA's designated beneficiary) your child before he or she reaches age 30.

Key Features Of New Education Savings Account...

\$2,000 annual limit per beneficiary

Contributions are non-deductible

Qualified distributions are tax-free

Virtually anyone can contribute

Contributions must stop at beneficiary's 18th birthday. Contribution permitted after age 18 for special needs children.