



smarter move toward growing your funds efficiently and effectively.

If you're new to education savings accounts, the Coverdell is essentially a college savings option that comes with a higher rate of return than traditional bank savings accounts, as well as federal tax advantages. The funds may be used for educational expenses, but the money is not limited to just college. So if there's a swanky preschool, prep school or private school you'd like molding your child's mind, any hefty price tag associated may be paid from the education savings account.

Another education savings plan often compared to the Coverdell Education Savings Account is the 529 plan. It too comes with higher returns and investment options and is meant for educational expenses. However, the 529 plan only allows the funds to be used toward post-secondary education, such as traditional colleges, community colleges and vocational institutions, while the Coverdell allows funds to be applied to education-related expenses from preschool on up.

## Education Savings Account Rules

To decide if an education savings account is right for your needs and your investment approach, familiarize yourself with these education savings account rules.

- **Age:** An education savings account can only be opened for children under the age of 18, and contributions cannot be made to the account past the age of 18.
- **Contribution limits:** The total contributions per beneficiary cannot exceed \$2,000 per year, regardless of how many accounts that beneficiary may have. If the contributions limits are exceeded, a six percent excise tax on the excess is applied.
- **Taxes:** Contributions made to the education savings account are not tax deductible, but the earnings grow exempt from federal taxes.
- **Income restrictions:** The income phase-out for an education savings account is up to \$110,000 for single taxpayers and \$220,000 for couples filing jointly, according to [SavingforCollege.com](https://www.savingforcollege.com).
- **Fund allocation:** Money from the education savings account can be used to pay for qualifying educational expenses (QEE) from Pre-K through college. Expenses include tuition, fees, books, supplies, equipment, housing, uniforms, transportation and special needs related costs.
- **Expiration date:** Money in an education savings account must be used prior to the beneficiary turning age 30 to avoid incurring a tax penalty. However, the money can be rolled over into the account of a qualifying member of the beneficiary's family who is under the age of 30.
- **Transfers:** An education savings account can be transferred to a qualifying member of the beneficiary's family under the age 30 in the event that the beneficiary has excess funds or will not use the money. The money can also be transferred into a 529 plan. However, funds from a 529 plan cannot be transferred to an education savings account.
- **Distributions:** Typically the money distributed to the beneficiary is tax-free, so long as the funds are used on QEE. Once the beneficiary turns 18, she has control of the money distribution and does not need the permission of the account owner to access funds, even if doing so results in penalties.

## Coverdell Education Savings Account Withdrawal

Since the contributions made to a Coverdell Education Savings Account are done so using after-tax dollars, the money withdrawn from the education savings account, including any earnings, is tax-free. The one caveat is that the Coverdell Education Savings Account withdrawal must stay within the limits of the QEE. Any amount in excess of the QEE is subject to income tax and a 10 percent penalty tax. If the beneficiary also has a 529 plan, the QEE applies to both accounts combined.

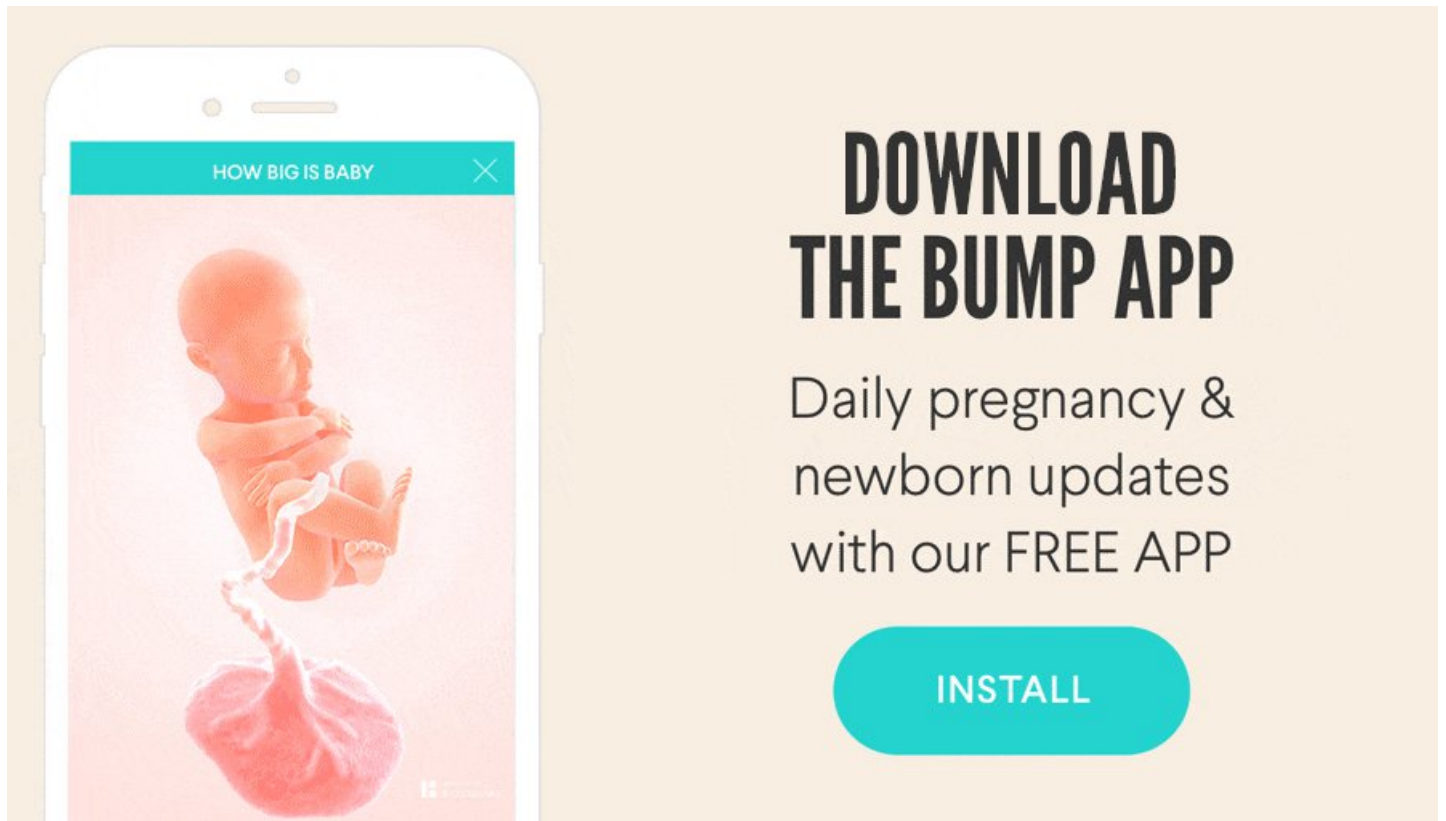
And again, education savings account money not withdrawn or rolled over to a qualifying family member

before the designated beneficiary turns age 30 is also subject to income tax and a 10 percent penalty tax.

## Where Can You Open a Coverdell Education Savings Account?

When it comes to education savings accounts, the Coverdell is the only type available. They are offered and can be opened at most banks, credit unions, mutual fund companies and brokerage firms. Each location comes with its own fees, investment options and account features. Shop around to see what is available and which plan offerings are best for your education savings plan.

PHOTO: iStock



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