

## Coverdell Education Savings Accounts: FAQs

### Frequently Asked Questions About Coverdell Education Savings Accounts

#### What is a Coverdell Education Savings Account?

Formerly known as an Education IRA, a Coverdell Education Savings Account (ESA), is a federally sponsored, tax-advantaged trust or custodial account set up to pay for qualified education expenses. Coverdell ESAs can be opened for any student who is under the age of 18 years. The assets, however, must be withdrawn by the time the student reaches the age of 30. Accounts for beneficiaries with special needs generally are not subject to the age restrictions on contributions and withdrawals. Coverdell ESAs are named in honor of the late Senator Paul Coverdell who championed the original legislation that created the Education IRA.

#### What is the level of Coverdell ESA assets held in mutual funds?

According to the most recent data available, [Coverdell ESA assets](#) invested in mutual funds totaled \$7 billion at year-end 2019.

#### What is the tax treatment of Coverdell ESA contributions and earnings?

Coverdell ESA contributions are not tax deductible, but, like a Roth IRA, amounts deposited in the accounts grow tax-free until withdrawn. Withdrawals from Coverdell ESAs generally are tax-free to the extent that the amount of the withdrawal is not more than the beneficiary's qualified education expenses.

#### Is there a limit to Coverdell ESA contributions?

Yes. The annual contribution limit for 2020 is \$2,000 per beneficiary.

#### Who can contribute to a Coverdell ESA?

Parents, grandparents, other relatives, friends, and the child for whom the account is being established can contribute to a Coverdell ESA. Since 2002, organizations, such as corporations and trusts, have also been permitted to invest in a Coverdell ESA. Contributions can be made by individuals with modified adjusted gross income of less than \$110,000. For a couple filing a joint return, that amount is \$220,000.

#### How can Coverdell ESA withdrawals be used?

Coverdell ESA withdrawals can be used to pay for qualified education expenses at elementary and secondary schools (K-12), including public, private, or religious schools, as well as any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education. This includes virtually all accredited, public, nonprofit, and private postsecondary institutions.

#### What expenses are covered by Coverdell ESAs?

Coverdell ESAs can be used only to pay for qualified education expenses, such as tuition and fees; the cost of books, supplies and other equipment; and in some situations, the cost of room and board. Qualified elementary and secondary school expenses include expenses for tuition, fees, and academic tutoring; special needs services in the case of a special needs beneficiary; books, supplies and other equipment; computer technology, equipment, and Internet access for the use of the beneficiary; and, in some cases, room and board, uniforms, transportation, and extended day programs.

#### When can Coverdell ESA assets be withdrawn?

Coverdell ESA distributions may be made at any time. As long as the distribution is applied to payment of the qualified education expenses of the designated beneficiary, it will generally not be considered taxable income for the beneficiary. Coverdell ESA assets generally must be used before the student reaches the age of 30 years. (Special needs beneficiaries are not subject to any age restrictions.) At that point, any remaining funds will be distributed to the beneficiary, and the earnings portion generally will be

considered taxable income of the beneficiary. To avoid this, the funds in a Coverdell ESA may be rolled over into a Coverdell ESA for another eligible family member before the primary beneficiary reaches age 30.

## **What is the tax treatment of Coverdell ESA distributions not used for qualified education expenses?**

The earnings portion of a Coverdell ESA distribution that is not considered to be for qualified education expenses will be included in the gross income of the beneficiary and an additional 10 percent tax penalty may apply.

## **Where can I find more information on Coverdell ESAs and other education savings opportunities?**

Many [mutual fund company websites](#) provide information on education savings programs.

Individuals seeking information on 529 savings plans may want to visit the website for the National Association of State Treasurers at [www.collegesavings.org](http://www.collegesavings.org).

The IRS also provides [information on Coverdell ESAs](#), including the requirements to set up, contribute to, and receive distributions from an account.

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