

Education Funding Goals

Coverdell Education Saving Account

ESA - Education Savings Accounts

One of new products that came out of the Budget Reconciliation Act of 1996 is the Coverdell ESA. The Coverdell ESA offers the potential for tax-free growth when you use the account to fund a child's qualified higher education expenses.



Contributions

Parents, grandparents and other family members can contribute up to \$2,000 per year (non-deductible) into an Coverdell ESA for each child under age 18 so long as your modified adjusted gross income (MAGI) is below \$220,000 for joint filers, or below \$110,000 if you're single. Your child under 18 is named as the beneficiary on the account, with a parent or legal guardian named as the responsible individual.

Withdrawals

The principal grows tax-free until distributed. Withdrawals from an Coverdell ESA are free from federal income taxes as long as the withdrawals are less than or equal to the costs associated with post-secondary education, such as tuition, books, fees, and supplies.

If there are funds left over after your child has finished his or her education, there are two options: The remaining amount can be withdrawn and given to the designated beneficiaries with tax consequences, or the remaining amount can be rolled over into to another Coverdell ESA for the benefit of a member of the designated beneficiary's family, in which case there are no tax consequences.

Once the Coverdell ESA account holder reaches age 30, the account must be closed or transferred to a younger member of the family.
