It is important to remember that even with this extended range of family members, contributions can be made only for those under the age of 18, unless the beneficiary is a special needs beneficiary.

For More Information...

For more information about paving the road to success for your child, please ask one of our employees for more details. Our employees may also suggest that you seek advice from a competent tax advisor.

This brochure provides general CESA rules and contribution limitations current as of January 1, 2013. It does not reflect any legislative or regulatory changes since then.

This brochure is intended to provide general information concerning only the federal tax laws governing CESAs. It is not intended to provide legal advice or to be detailed explanation of the rules or how such rules may apply to your individual circumstances or under your state tax laws.

Farmers State Bank does not claim to be a financial/tax planner for customers. We strongly recommend that you contact your tax advisor before making any decisions. All information provided above is intended as reference material for your decision making process. By providing this information, Farmers State Bank is not suggesting any course of action that is to be taken.

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Coverdell Education Savings Accounts

One Step Closer To Your Child's Success

Every parent looks at their child and wonders what the future holds.

- What jobs will be available?
- What kind of training will my child need — college or technical school?
- Will the money be there for their education?

You may not know the answer to the first two questions, but you have a resource to help you with the last — the Coverdell Education Savings Account (CESA).

What is a Education Savings Account?

An CESA is an investment tool created for the purpose of paying for the future cost of a child's education. The plan allows total after-tax contributions of $2,000 per year for each child until they reach the age of 18. These contributions and their subsequent earnings are tax-free when withdrawn to pay for qualified education expenses.

What is a Qualified Education Expense?

A qualified education expense is one that is required for the enrollment or attendance by your child at an eligible educational institution, including elementary, secondary or post secondary institutions.

These expenses include:

- tuition,
- fees,
- books,
- supplies, and
- equipment.

Who Can Contribute to an Education Savings Account?

The answer to that question is "almost anyone".

There are two key limitations:

- Each child can receive a total of $2,000 per year in contributions from all sources. It does not make a difference if this is done in a single account or multiple accounts designed to benefit the same child.
- A person may be limited in the amount of their contribution if there modified adjusted gross income exceeds $95,000 for single filers or $190,000 for joint filers. Above these income levels, the ability to contribute is phased out. If income exceeds $110,000 for single filers, or $220,000 for joint filers, no contribution is allowed.

The CESA does not specify that the contributor must be a member of the family. With this broad range of potential contributors, it is possible that more than one person may want to contribute for the same child. A coordinated effort should be encouraged to avoid excess contributions.

Can I Rollover Funds from Another CESA?

You can rollover funds from one CESA to a new or existing CESA only. The funds, however, must benefit the same child or an eligible member of the child's family. A rollover contribution does not affect the $2,000 annual contribution limit. Rollovers must be completed within 60 days of the initial distribution and are limited to one per 12 month period.

Am I Allowed to Change the Designated Beneficiary?

You may change the designated beneficiary (child). An example of why someone may wish to change the designated beneficiary is the current designated beneficiary has completed their education and there are funds remaining. The only stipulation is that the new designated beneficiary must be an eligible member of the family.

Who is a Member of the Family?

There are several possible family members.

They would include:

- children, grandchildren and stepchildren,
- brothers, sisters, stepbrothers and stepsisters,
- nephews and nieces,
- parents, stepparents, and grandparents,
- uncles and aunts
- spouses of all the family members listed above, and
- cousins.