



## Self-Directed ESA Guide



CHURCH  
LOAN  
FUND



# SELF-DIRECTED COVERDELL ESA



## CHECKLIST FOR NEW ACCOUNTS



- ☐ 1. **Coverdell ESA Simplifier** (account application)
- ☐ 2. **Contribution** (\$2000 maximum per year) **AND/OR**
- ☐ 3. **Coverdell ESA Transfer Request** form
- ☐ 4. **Coverdell ESA Denominational Investment Direction** form
- ☐ 5. **Identification** - Enter the responsible party's driver's license info on the Simplifier. If no driver's license, provide a legible photocopy of a valid, state-issued photo ID, passport, or notarized document.
- ☐ 6. **Most recent account statement** (only if transferring from an existing Coverdell custodian)



## LOAN FUND FEES

**United Pentecostal  
Church Loan Fund**



United Pentecostal Church Loan Fund will pay half of your annual maintenance fee as long as your loan fund investment is active!

Additional fees may apply for other transactions on the account. Please consult the ***Financial Disclosure and Fee Schedule*** for applicable fees or contact GoldStar's Investor Services department with any questions.

**PART 1. DESIGNATED BENEFICIARY***The individual for whom this account is being established*

Name (First/MI/Last) \_\_\_\_\_

Address Line 1 \_\_\_\_\_

Address Line 2 \_\_\_\_\_

City/State/ZIP \_\_\_\_\_

Social Security Number \_\_\_\_\_

Date of Birth \_\_\_\_\_

Account Number \_\_\_\_\_

**PART 3. DEPOSITOR***The individual establishing this account*

Name (First/MI/Last) \_\_\_\_\_

Address Line 1 \_\_\_\_\_

Address Line 2 \_\_\_\_\_

City/State/ZIP \_\_\_\_\_

Social Security Number \_\_\_\_\_

Date of Birth \_\_\_\_\_ Phone \_\_\_\_\_

**PART 5. SUCCESSOR RESPONSIBLE INDIVIDUAL**

In the event of the death or legal incapacity of the responsible individual while the designated beneficiary is a minor under state law, the individual named below is designated as the successor responsible individual.

☐ No successor responsible individual will be named at this time. The responsible individual may designate a successor responsible individual at a later date.

Name (First/MI/Last) \_\_\_\_\_

Address Line 1 \_\_\_\_\_

Address Line 2 \_\_\_\_\_

City/State/ZIP \_\_\_\_\_

Social Security Number \_\_\_\_\_

Phone \_\_\_\_\_

Relationship to Designated Beneficiary \_\_\_\_\_

Email \_\_\_\_\_

**PART 6. CONTRIBUTION INFORMATION**

Contribution Amount \_\_\_\_\_ Contribution Date \_\_\_\_\_

**CONTRIBUTION TYPE** (Select one)☐ **1. Regular**

Contribution for Tax Year \_\_\_\_\_

☐ **2. Rollover** (Distribution from a Coverdell ESA that is being deposited into this Coverdell ESA)

By selecting this transaction, I irrevocably designate this contribution as a rollover.

☐ **3. Transfer** (Direct movement of assets from a Coverdell ESA into this Coverdell ESA)**PART 2. COVERDELL ESA CUSTODIAN**

Name \_\_\_\_\_ GoldStar Trust Company

Address Line 1 \_\_\_\_\_ P.O. Box 719 (Mailing)

Address Line 2 \_\_\_\_\_ 1401 4th Avenue (Street)

City/State/ZIP \_\_\_\_\_ Canyon, TX 79015

Phone \_\_\_\_\_ (800) 486-6888

☐ This is an amendment to an existing Coverdell ESA.**PART 4. RESPONSIBLE INDIVIDUAL***The individual responsible for managing this account*

Name (First/MI/Last) \_\_\_\_\_

Address Line 1 \_\_\_\_\_

Address Line 2 \_\_\_\_\_

City/State/ZIP \_\_\_\_\_

Social Security Number \_\_\_\_\_

Phone \_\_\_\_\_

Relationship to Designated Beneficiary \_\_\_\_\_

Email \_\_\_\_\_

**ELECTIONS** (Select an answer to each of the following questions. If a box is not checked for a question, "No" will apply.)

☐ **Yes** ☐ **No** Will the responsible individual continue to serve as the responsible individual for the custodial account after the designated beneficiary attains the age of majority under state law and until such time as all assets have been distributed from the custodial account and the custodial account terminates? (See Article V of the agreement for additional information.)

If the responsible individual becomes incapacitated or dies after the designated beneficiary reaches the age of majority under state law, the responsible individual shall be the designated beneficiary.

☐ **Yes** ☐ **No** May the responsible individual change the beneficiary designated under this agreement to another member of the designated beneficiary's family described in Code section 529(e)(2) in accordance with the custodian's procedures?

## PART 7. DEATH BENEFICIARY DESIGNATION

Upon the designated beneficiary's death, the assets in this account will be paid to the death beneficiaries named below. The interest of any death beneficiary that predeceases the designated beneficiary terminates completely. If all primary death beneficiaries predecease the designated beneficiary, the balance in the account will be payable to the contingent death beneficiaries. If no death beneficiaries are named, the designated beneficiary's estate will be the death beneficiary.

☐ No death beneficiaries are designated at this time. The responsible individual may designate death beneficiaries at a later date.

### PRIMARY DEATH BENEFICIARY

Name \_\_\_\_\_  
Address \_\_\_\_\_  
City/State/ZIP \_\_\_\_\_  
Date of Birth \_\_\_\_\_  
Relationship to Designated Beneficiary \_\_\_\_\_  
Tax ID (SSN/TIN) \_\_\_\_\_ Percent Designated \_\_\_\_\_  
(The total percentage designated must equal 100%.)

### CONTINGENT DEATH BENEFICIARY

Name \_\_\_\_\_  
Address \_\_\_\_\_  
City/State/ZIP \_\_\_\_\_  
Date of Birth \_\_\_\_\_  
Relationship to Designated Beneficiary \_\_\_\_\_  
Tax ID (SSN/TIN) \_\_\_\_\_ Percent Designated \_\_\_\_\_  
(The total percentage designated must equal 100%.)

☐ Check here if additional death beneficiaries are listed on an attached addendum. Total number of addendums attached to this Coverdell ESA \_\_\_\_\_

## PART 8. SIGNATURES

**Important:** Please read before signing.

The depositor and responsible individual have received a copy of the Coverdell ESA Application, the 5305-EA Coverdell ESA Custodial Account Agreement, and the Disclosure Statement. The depositor and responsible individual understand that the terms and conditions that apply to this Coverdell ESA are contained in this Application and the Coverdell ESA Custodial Account Agreement, and agree to be bound by those terms and conditions.

The depositor assumes responsibility for determining that he or she is eligible to make this contribution and that the contribution is within the limits set forth by the tax laws.

The responsible individual assumes responsibility for

- ensuring that all future contributions are within the limits set forth by the tax laws,
- certifying that he or she is qualified to assume the responsibilities of the responsible individual as set forth in the Coverdell ESA Custodial Account Agreement, and
- managing and administering the Coverdell ESA and authorizing transactions involving contributions (including rollover contributions) and distributions.

I expressly certify that I take complete responsibility for the type of investment instrument(s) I choose to fund my IRA, and that the Custodian is released of any liability regarding the performance of any investment choice I make.

**X** \_\_\_\_\_  
Signature of Coverdell ESA Depositor Date (mm/dd/yyyy)

**X** \_\_\_\_\_  
Signature of Coverdell ESA Responsible Individual Date (mm/dd/yyyy)

**X** \_\_\_\_\_  
Signature of Witness Date (mm/dd/yyyy)

**X** \_\_\_\_\_  
Signature of Custodian Date (mm/dd/yyyy)



**GOLDSTAR**  
**TRUST COMPANY**

## IMPORTANT

## CUSTOMER IDENTIFICATION REQUIREMENTS

This form can be used INSTEAD OF submitting a legible photocopy of a driver's license, state-issued photo ID, passport or notarized document.

### USA PATRIOT Act Notice

In order to comply with the USA PATRIOT Act, we must be able to identify our customer. All new accounts must provide us with either the driver's license information; a photocopy of an unexpired, photo-bearing, government-issued, veteran or similar ID; or a notarized document.

Driver's License # \_\_\_\_\_ State Issued \_\_\_\_\_

Issuance Date \_\_\_\_\_ Expiration Date \_\_\_\_\_

Printed Name \_\_\_\_\_

Signed \_\_\_\_\_ Date \_\_\_\_\_

**IF YOU DO NOT HAVE A VALID STATE-ISSUED DRIVER'S LICENSE, YOU MUST PROVIDE A LEGIBLE PHOTOCOPY OF A VALID GOVERNMENT-ISSUED PHOTO ID OR A NOTARIZED DOCUMENT.**

Email to: NewBusiness@goldstartrust.com

or

Fax to: (806) 655-2490

or

Mail to: P.O. Box 719  
Canyon, TX 79015

or

Overnight to: 1401 4th Avenue  
Canyon, TX 79015

### Questions?

Call: 800-486-6888 or Email: [Info@goldstartrust.com](mailto:Info@goldstartrust.com)

**THANK YOU!**  
[www.goldstartrust.com](http://www.goldstartrust.com)

# COVERDELL EDUCATION SAVINGS ACCOUNT TRANSFER REQUEST

DESIGNATED BENEFICIARY'S NAME AND ADDRESS (Current Coverdell ESA)			CURRENT COVERDELL ESA TRUSTEE'S OR CUSTODIAN'S NAME AND ADDRESS	
			<b>Coverdell ESA Account Identification (Transferring Coverdell ESA)</b>	<b>Trustee's or Custodian's Phone Number</b>
<b>Current Designated Beneficiary</b>			<b>Receiving Coverdell ESA Designated Beneficiary</b> <i>Complete only if transferring to a new Designated Beneficiary.</i>	
<b>Social Security Number</b>	<b>Date of Birth</b>	<b>Home Phone</b>	<b>Name</b>	<b>Social Security Number</b>

## RULES AND CONDITIONS APPLICABLE TO TRANSFERS

This form should be used when Coverdell ESA assets are being moved directly from financial institution to financial institution. Thus, as noted below, the check will be made payable directly to the receiving Coverdell ESA Trustee or Custodian. Transfer of Coverdell ESA assets is a reportable transaction to the IRS. **NOTE: IRS 1099-Q instructions require that in a transfer between Coverdell ESAs, the distributing Coverdell ESA Trustee or Custodian must provide the receiving Coverdell ESA Trustee or Custodian with a statement reporting the earnings portion of the distribution within 30 days of the distribution or January 10, whichever is earlier.**

## TRANSFER INSTRUCTIONS

Directly transfer ☐ all or ☐ part of the Coverdell ESA identified above in the following manner.

Frequency: ☐ One-time ☐ Monthly ☐ Quarterly ☐ Annually ☐ Other \_\_\_\_\_

This transfer ☐ will ☐ will not close the Coverdell ESA.

Please make a check payable as follows.

**NOTE:** Complete one of the following applicable options. If more than one option applies, complete a separate form per transaction.

OPTION ONE	Coverdell ESA Transfer to Same Designated Beneficiary	OPTION TWO	Coverdell ESA Transfer to a New Designated Beneficiary
	_____ (Name of Accepting Organization) as <input type="checkbox"/> Trustee <input type="checkbox"/> Custodian of the _____ Coverdell ESA. (Name of Receiving Designated Beneficiary)		_____ (Name of Accepting Organization) as <input type="checkbox"/> Trustee <input type="checkbox"/> Custodian of the _____ Coverdell ESA. (Name of New Receiving Designated Beneficiary)

## ASSET HANDLING INSTRUCTIONS

Asset Description	Quantity or Amount in Coverdell ESA	Quantity or Amount to be Transferred	Liquidate Immediately	Liquidate at Maturity
1.			<input type="checkbox"/>	<input type="checkbox"/>
2.			<input type="checkbox"/>	<input type="checkbox"/>
3.			<input type="checkbox"/>	<input type="checkbox"/>
4.			<input type="checkbox"/>	<input type="checkbox"/>

## SIGNATURE OF RESPONSIBLE INDIVIDUAL

I certify that I am the proper party to authorize the transfer of the Coverdell ESA assets in the manner described above and certify that all of the information provided by me is correct and may be relied upon by the Trustee or Custodian.

I understand that I am responsible for determining that this Coverdell ESA transfer qualifies under the rules and conditions applicable to such transfers and agree to abide by those rules and conditions. I assume responsibility for any tax consequences or penalties that may apply to the transfer of these assets and I agree that the Trustee or Custodian shall in no way be held responsible.

\_\_\_\_\_  
(Coverdell ESA Responsible Individual)

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Notary Public/Signature Guarantee)

\_\_\_\_\_  
(Date)

## ACCEPTING COVERDELL ESA TRUSTEE OR CUSTODIAN

Our organization agrees to serve as the new Trustee or Custodian for the account of the above-named individual, and as Trustee or Custodian, we agree to accept the assets being transferred.

Account Identification of Accepting Coverdell ESA \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
(Authorized Signature of New Trustee or Custodian)

\_\_\_\_\_  
(Date)



**GOLDSTAR**  
TRUST COMPANY

**IRA Denominational  
INVESTMENT DIRECTION**

P.O.Box 719  
Canyon, TX 79015  
(800) 486-6888  
Fax (806) 655-2490  
info@goldstartrust.com

**IMPORTANT INFORMATION! READ BEFORE COMPLETION OF THIS FORM**

You determine the Loan or Extension Fund to be used for your IRA. GoldStar Trust Company ("GoldStar") does not offer investment products or advice and does not buy or sell church term notes or other investments. GoldStar is disqualified by the Internal Revenue Code from trading with an IRA for which it is the custodian. GoldStar is compensated through administrative fees and cash management fees.

**GOLDSTAR IRA ACCOUNT OWNER**

Name \_\_\_\_\_ Account Number \_\_\_\_\_ ☐ New Account  
(if known) \_\_\_\_\_ Pending  
Address \_\_\_\_\_ Daytime Phone \_\_\_\_\_  
Email \_\_\_\_\_

**SOURCE OF INVESTMENT**

Name of Loan or  
Extension Fund UNITED PENTECOSTAL CHURCH LOAN FUND Phone (636) 229-7979  
Contact Susanna Drury Fax (636) 939-7547 Email sldrury@upci.org

**INVESTMENT DIRECTIONS - Mark the box next to the desired investment and indicate your investment amount.**

A. Term Certificate –

B. Addition to Existing Certificate

INVESTMENT  
AMOUNT \$

Maturity	Fixed Interest Rate	Yield to Maturity
<input type="checkbox"/> 1 Year	2.60%	2.63%
<input type="checkbox"/> 3 Year	3.25%	3.40%
<input type="checkbox"/> 5 Year	3.50%	3.81%

INVESTMENT  
AMOUNT \$

**INTEREST PAYMENT METHOD**

Mark the appropriate box to indicate the desired method of handling interest. Interest accrues daily on all Investment Certificates. All accrued interest not withdrawn from the IRA may be added to the principal amount of your Investment Certificate semi-annually.

Check desired option:

☐ Reinvest

**AUTHORIZATION AND ACKNOWLEDGEMENT**

Indirect GoldStar to make the investments as indicated above. I acknowledge that I am solely responsible for all matters regarding taxation arising from transactions involving my IRA as well as determining that investments I direct are allowable under applicable law and regulations. GoldStar has not rendered any advice and has no discretion or responsibility to direct any investment for my self-directed IRA, and I am solely responsible for the selection of my dealer and negotiation of prices and terms. I understand that with exception of cash invested in an FDIC insured bank account, investments held in my IRA may lose value, are not FDIC insured, and are not guaranteed by GoldStar.

**IMPORTANT: READ BEFORE SIGNING!**

X \_\_\_\_\_  
Signature of Account Holder Date



# SELF-DIRECTED COVERDELL ESA

1

## ESTABLISH YOUR SELF-DIRECTED ESA



### ESA Account Application

Complete the GoldStar ESA Account Application (*Coverdell ESA Simplifier*) which can be obtained from our website - [www.goldstartrust.com](http://www.goldstartrust.com).



### Responsible Individual Identification

The responsible individual for the minor's account must enter Driver's License information on the Simplifier. If the responsible party does not have a valid state-issued driver's license, provide a legible photocopy of a valid government-issued photo ID, passport, or notarized document.

2

## FUND YOUR ESA

An ESA is funded through contributions and transfers from existing ESAs. The maximum annual contribution for an ESA is \$2000.



### Transfer Existing ESA to GoldStar

#### Required documents and forms needed:

- Completed *Coverdell ESA Simplifier*
- Completed *Coverdell ESA Transfer Request* form with original signature
- Responsible party's driver's license info on Simplifier. If no driver's license, provide a legible photocopy of a valid, state-issued photo ID, passport, or notarized document.
- Most recent account statement from existing ESA custodian

GoldStar will send the completed *Coverdell ESA Transfer Request* form to your resigning custodian and follow up periodically on your transfer until the funds (or assets for transfers in-kind) are received. The transfer process typically takes 2-4 weeks.

**– IMPORTANT –** Contact your current plan's administrator first to see if their specific Transfer paperwork is required.





# SELF-DIRECTED COVERDELL ESA

## CONTACT INFORMATION

### Hours

Mon. – Thurs. 7 am – 5 pm CST

Fri. 7 am – 4 pm CST

### Investor Services

(800) 486-6888

### Mailing Address

GoldStar Trust Company

PO Box 719

Canyon, TX 79015

### Physical / Overnight Address

1401 4th Avenue

Canyon, TX 79015

### Fax

(806) 655-2490 (Main)

### E-mail

Info@GoldStarTrust.com (Investor Services)

### Website

[www.GoldStarTrust.com](http://www.GoldStarTrust.com)





# GOLDSTAR TRUST COMPANY

## FINANCIAL DISCLOSURE & FEE SCHEDULE

for Traditional, Roth, SEP or Simple IRAs and ESAs

P. O. Box 719  
Canyon, TX 79015  
(800) 486-6888  
Fax (806) 655-2490

FEES	CHURCH BOND IRA OR ESA	STANDARD IRA OR ESA	SPECIALIZED IRA OR ESA
GENERAL ACCOUNT ADMINISTRATION FEES: Charged when the service is rendered.			
Distribution Via Check Fee	\$5	\$5	\$5
Distribution Via Wire Fee	\$25	\$25	\$25
Distribution Via ACH Fee	Free	Free	Free
Periodic Distributions Via ACH Fee	Free	Free	Free
Wire Transfer Fee	\$25	\$25	\$25
Overnight Fee	\$25	\$25	\$25
Partial Transfer Fee	\$25	\$25	\$25
Roth Conversion Fee	\$25	\$25	\$25
Research Assistance Fee	\$25	\$25	\$25
Insufficient Funds / Returned Check Fee	\$50	\$50	\$50
Late Fees Any fees not paid within 30 days of the due date will have late fees accrue at the rate of .0083 per month or 10% per annum	.0083 per month or 10% per annum	.0083 per month or 10% per annum	.0083 per month or 10% per annum
CASH MANAGEMENT FEE:			
	GoldStar Trust Company receives a monthly record keeping fee on the uninvested cash equal to .000833 or 1.00% per annum. If and when the interest rate earned on the uninvested cash in a given month is below 1.15%, .15% will be paid on the uninvested cash and the difference will be retained as the record keeping fee. Interest earnings will be posted monthly to each account. Accounts that close during a month will not earn interest for that month.		
TERMINATION FEES:			
Full Termination Fee	\$50	\$50	\$50

### RIGHT TO MAKE ADJUSTMENTS TO THIS FEE SCHEDULE:

GoldStar Trust Company reserves the right to make any adjustments in its fees for custodial or agency services when such adjustments are warranted by changes in governing laws, regulations operating technology or economic conditions. This schedule may be modified only upon revision by GoldStar of its published schedule of IRA fees. Such fees shall become effective on the 30th day after mailing the notice of such revision to the participant at the address shown on the records of GoldStar.

### EARNINGS:

The method for computing and allocating annual earnings (interest, dividends, etc.) on your investments will vary with the nature and issuer of the investment chosen. Please refer to the prospectus or contract of the investment(s) of your choice for the method(s) used for computing and allocating annual earnings. The valuations of nonstandard assets such as Privately Offered Stock and other Private Placement Investments are reported at either the most recent price provided to the custodian by the investment issuer or at investment cost. Nonstandard assets are generally illiquid, and the custodian does not seek to verify the valuations provided to it by the investment issuer. The custodian does not guarantee that the reported valuation could be received in the event the position was sold or liquidated. As such, the reported valuation may be different from the actual value and should be used as guidance and for reporting purposes only since the valuation was not obtained or verified by a third party.

Custodian shall be under no obligation to forward any proxies, financial statements or other literature received by it in connection with or relating to Custodial Property held under this agreement. Custodian shall be under no obligation to take any action with regard to proxies, stock dividends, warrants, rights to subscribe, plans of reorganization or recapitalization, or plans for exchange of securities.



# GOLDSTAR TRUST COMPANY

## IRA CUSTOMER Identification Requirements

P. O. Box 719  
Canyon, TX 79015  
(800) 486-6888  
Fax (806) 655-2490

Section 326 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA PATRIOT Act) authorizes and requires the Department of the Treasury to add to its rules for banks to establish Customer Identification Programs. Previously, trust companies were not treated as banks and trust relationships were not treated as "accounts." However, GoldStar and the GoldStar IRA account establishment process are now subject to these requirements.

### NOTICE

Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account.

When you open an account, we will ask for your name, residence address, social security number, date of birth, and other information that will allow us to identify you. We may also ask for copies of your passport, driver's license or other identifying documents.

For Precious Metals IRAs & Hedge Fund IRAs: a non-refundable Establishment Fee of \$25 is due with application.

We are required to compare your identity to lists of persons and organizations maintained by any federal agency designated by the Department of the Treasury. If your name appears on any of these lists, we must refuse to open your account, close your account if it is already open, notify federal authorities, and follow all federal directives. If you attempt to falsify or conceal your identity, we may be required to file a Suspicious Activity Report.

We may also use independent sources to verify identifying information. Federal law requires us to retain the identification information for a certain period of time (currently five years after closing your account), and may require that we provide this information to federal authorities without notice to you.

This notice is in addition to our Privacy Disclosure and may describe potential disclosures of non-public personal information that were not known to us at the time that the Privacy Disclosure was prepared.



### IDENTIFYING DOCUMENTS REQUESTED

The easiest means for GoldStar to comply is to receive documents with your application, such as:

- Any document with your notarized signature
- A notarized copy of your passport or driver's license or other state-issued photo ID that is not expired
- An ordinary copy of your unexpired photo ID, if GoldStar is able to complete other procedures



### IDENTIFYING DOCUMENTS REQUIRED

If you intend to direct investment outside the U.S., GoldStar will require a notarized copy of your passport (or driver's license if you do not have a passport). This may be the same document that is to be forwarded to a non-U.S. bank.



### QUESTIONS OR CONCERNS?

GoldStar Trust Company  
Investor Services Department  
P.O. Box 719  
Canyon, TX 79015  
(800) 486-6888

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# COVERDELL ESA CUSTODIAL ACCOUNT AGREEMENT

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Form 5305-EA under section 530 of the Internal Revenue Code.

FORM (Rev. October 2010)

The depositor whose name appears on the application is establishing a Coverdell Education Savings Account under section 530 for the benefit of the designated beneficiary whose name appears on the application exclusively to pay for the qualified elementary, secondary, and higher education expenses, within the meaning of section 530(b)(2), of such designated beneficiary.

The depositor has assigned the custodial account the sum indicated on the application.

The depositor and the custodian make the following agreement:

## ARTICLE I

The custodian may accept additional cash contributions provided the designated beneficiary has not attained the age of 18 as of the date such contributions are made. Contributions by an individual contributor may be made for the tax year of the designated beneficiary by the due date of the beneficiary's tax return for that year (excluding extensions). Total contributions that are not rollover contributions described in section 530(d)(5) are limited to \$2,000 for the tax year. In the case of an individual contributor, the \$2,000 limitation for any year is phased out between modified adjusted gross income (AGI) of \$95,000 and \$110,000. For married individuals filing jointly, the phase-out occurs between modified AGI of \$190,000 and \$220,000. Modified AGI is defined in section 530(c)(2).

## ARTICLE II

No part of the custodial account funds may be invested in life insurance contracts, nor may the assets of the custodial account be commingled with other property except in a common trust fund or a common investment fund (within the meaning of section 530(b)(1)(D)).

## ARTICLE III

1. Any balance to the credit of the designated beneficiary on the date on which he or she attains age 30 shall be distributed to him or her within 30 days of such date.
2. Any balance to the credit of the designated beneficiary shall be distributed within 30 days of his or her death **unless** the designated death beneficiary is a family member of the designated beneficiary and is under the age of 30 on the date of death. In such case, that family member shall become the designated beneficiary as of the date of death.

## ARTICLE IV

The depositor shall have the power to direct the custodian regarding the investment of the amount listed on the application assigned to the custodial account (including earnings thereon) in the investment choices offered by the custodian. The responsible individual, however, shall have the power to redirect the custodian regarding the investment of such amounts, as well as the power to direct the custodian regarding the investment of all additional contributions (including earnings thereon) to the custodial account. In the event that the responsible individual does not direct the custodian regarding the investment of additional contributions (including earnings thereon), the initial investment direction of the depositor also will govern all additional contributions made to the custodial account until such time as the responsible individual otherwise directs the custodian. Unless otherwise provided in this agreement, the responsible individual also shall have the power to direct the custodian regarding the administration, management, and distribution of the account.

## ARTICLE V

The "responsible individual" named by the depositor shall be a parent or guardian of the designated beneficiary. The custodial account shall have only one responsible individual at any time. If the responsible individual becomes incapacitated or dies while the designated beneficiary is a minor under state law, the successor responsible individual shall be the person named to succeed in that capacity by the preceding responsible individual in a witnessed writing or, if no successor is so named, the successor responsible individual shall be the designated beneficiary's other parent or successor guardian. Unless otherwise directed by checking the option on the application, at the time that the designated beneficiary attains the age of majority under state law, the designated beneficiary becomes the responsible individual. If a family member under the age of majority under state law becomes the designated beneficiary by reason of being a named death beneficiary, the responsible individual shall be such designated beneficiary's parent or guardian.

## ARTICLE VI

*(See the application and section 10.06 of this agreement for information regarding the responsible individual's ability to change the designated beneficiary named by the depositor.)*

## ARTICLE VII

1. The depositor agrees to provide the custodian with all information necessary to prepare any reports required by section 530(h).
2. The custodian agrees to submit to the Internal Revenue Service (IRS) and responsible individual the reports prescribed by the IRS.

## ARTICLE VIII

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through III will be controlling. Any additional articles inconsistent with section 530 and the related regulations will be invalid.

## ARTICLE IX

This agreement will be amended as necessary to comply with the provisions of the Code and the related regulations. Other amendments may be made with the consent of the depositor and custodian whose signatures appear on the application.

## ARTICLE X

- 10.01 **Notices and Change of Address** – Any required notice regarding this Coverdell ESA will be considered effective when the custodian sends it to the intended recipient at the last address that the custodian has in its records. Any notice to be given to the custodian will be considered effective when the custodian actually receives it. The responsible individual must notify the custodian of any change of address.
- 10.02 **Representations and Responsibilities** – The depositor and the responsible individual represent and warrant to the custodian that any information the depositor and responsible individual have given or will give the custodian with respect to this agreement is complete and accurate. Further, the depositor and the responsible individual agree that any directions they give the custodian, or action they take will be proper under this agreement, and that the custodian is entitled to rely upon any such information or directions. If the custodian fails to receive directions regarding any transaction, receives ambiguous directions regarding any



transaction, or if the custodian, in good faith, believes that any transaction requested is in dispute, the custodian reserves the right to take no action until further clarification acceptable to the custodian is received from the responsible individual or the appropriate government or judicial authority. The custodian will not be liable for acting upon any instructions given by the responsible individual named on the application prior to the time the custodian receives appropriate written notice that the designated beneficiary has met the requirements for assuming control of the Coverdell ESA, or that a new responsible individual has been appointed. The custodian will not be responsible for losses of any kind that may result from the depositor's and responsible individual's directions to it or the depositor's and responsible individual's actions, or failures to act. The depositor and responsible individual agree to reimburse the custodian for any loss the custodian may incur as a result of such directions, actions or failures to act. The custodian will not be responsible for any penalties, taxes, judgments, or expenses incurred in connection with this Coverdell ESA. The custodian has no duty to determine whether the contributions or distributions comply with the Code, regulations, rulings, or this agreement.

The responsible individual will have 60 days after receiving any documents, statements, or other information from the custodian to notify the custodian in writing of any errors or inaccuracies reflected in these documents, statements, or other information. If the custodian is not notified within 60 days, the documents, statements, or other information will be deemed correct and accurate, and the custodian will have no further liability or obligation for such documents, statements, other information, or the transactions described therein.

By performing services under this agreement the custodian is acting as the responsible individual's agent. The depositor, responsible individual, and designated beneficiary acknowledge and agree that nothing in this agreement will be construed as conferring fiduciary status upon the custodian. The custodian will not be required to perform any additional services unless specifically agreed to under the terms and conditions of this agreement, or as required under the Code and the regulations promulgated thereunder with respect to Coverdell ESAs. The designated beneficiary, depositor, and responsible individual agree to indemnify and hold the custodian harmless for any and all claims, actions, proceedings, damages, judgments, liabilities, costs, and expenses, including attorney's fees arising from or in connection with this agreement.

Notwithstanding anything in this agreement to the contrary, the custodian may establish a policy permitting someone other than the designated beneficiary's parent or legal guardian to serve as responsible individual, provided the individual is not prohibited by law from serving in that capacity and fulfilling his or her obligations under this agreement.

To the extent written instructions or notices are required under this agreement, the custodian may accept or provide such information in any other form permitted by the Code or applicable regulations including, but not limited to, electronic communication.

**10.03 Disclosure of Account Information** – The custodian may use agents and/or subcontractors to assist in administering this Coverdell ESA. The custodian may release nonpublic personal information regarding this Coverdell ESA to such providers as necessary to provide the products and services made available under this agreement, and to evaluate its business operations and analyze potential product, service, or process improvements.

**10.04 Service Fees** – The custodian has the right to charge an annual service fee or other designated fees (e.g., a transfer, rollover, or termination fee) for maintaining this Coverdell ESA. In addition, the custodian has the right to be reimbursed for all reasonable expenses, including legal expenses, incurred in connection with the administration of this Coverdell ESA. The custodian may charge the depositor or responsible individual separately for any fees or expenses, or may deduct the amount of the fees or expenses from the assets in this Coverdell ESA at the custodian's discretion. The custodian reserves the right to charge any additional fee after giving the responsible individual 30 days' notice. Fees such as subtransfer agent fees or commissions may be paid to the custodian by third parties for assistance in performing certain transactions with respect to this Coverdell ESA.

Any brokerage commissions attributable to the assets in the Coverdell ESA will be charged to the Coverdell ESA. The responsible individual, depositor or designated beneficiary cannot reimburse the Coverdell ESA for those commissions.

**10.05 Investment of Amounts in the IRA** – You have exclusive responsibility for and control over the investment of the assets of your IRA. All investment transactions, including the reinvestment of dividends, interest, and proceeds from securities sales, shall be directed by you. Absent or pending such direction, we shall be entitled on a daily basis to sweep all IRA account balances. Such balances shall be invested in short-term investments, which shall include insured savings accounts, insured savings certificates, federal funds, insured money market accounts, government securities, federal agency securities, and treasury notes, bonds and bills in which book value and interest is guaranteed (including any of the foregoing offered by Happy State Bank) ("Temporary Investments"). We shall have all power and authority necessary to hold, administer, vote and negotiate such Temporary Investment so as to enforce every right and benefit thereunder on your behalf. In making all Temporary Investments, we shall not be limited to investments now or hereinafter designated by statute or decision of a court as "legal investments" for funds held by fiduciaries. You hereby agree that we may, but shall not be required (unless required under applicable law) to inform you by forwarding materials or otherwise communicating with you under the provisions of Article VIII as to any questions, decisions or other matters for which a vote may be requested, necessary or helpful as to any Temporary Investment, and we shall thereafter have no responsibility whatsoever with respect thereto. You agree and acknowledge that unless required by applicable law, we are not responsible for communicating, forwarding, or notifying any party, including you, with respect to any communication or matter which comes to the attention of or is received by us with respect to Trust investments, including Temporary Investments, and that you are responsible for making separate arrangements for receiving such communications.

**10.06 Beneficiaries** – Unless indicated otherwise on the application, the responsible individual may not change the designated beneficiary. If the depositor has indicated on the application that the responsible individual may change the beneficiary designated under this agreement and the responsible individual chooses to do so, the responsible individual must designate a member of the family (as defined in IRC Section 529(e)(2)) of the existing designated beneficiary. This designation can only be made on a form prescribed by the custodian.

The depositor or responsible individual may designate one or more persons or entities as death beneficiaries of this Coverdell ESA. This designation can only be made on a form provided by or acceptable to the custodian, and it will only be effective when it is filed with the custodian during the lifetime of the designated beneficiary. Each

beneficiary designation filed with the custodian will cancel all previous designations. The consent of a death beneficiary will not be required in order to revoke a death beneficiary designation. If both primary and contingent death beneficiaries have been named, and no primary death beneficiary survives the designated beneficiary, the contingent death beneficiaries will acquire the designated share of this Coverdell ESA. If a death beneficiary is not designated with respect to this Coverdell ESA, or if all of the primary and contingent death beneficiaries predecease the designated beneficiary, the designated beneficiary's estate will be the death beneficiary.

If the designated beneficiary dies before receiving all of the amounts in this Coverdell ESA, the custodian will have no obligation to pay to the death beneficiaries until such time the custodian is notified of the designated beneficiary's death by receiving a valid death certificate. Any balance remaining in the Coverdell ESA upon the death of the designated beneficiary will be distributed within 30 days of the designated beneficiary's death, unless a qualified family member under age 30 is named as a death beneficiary. If the death beneficiary is a qualified family member under age 30, that individual will become the designated beneficiary as of the original designated beneficiary's date of death. Qualified family members are defined in IRC Section 529(e)(2).

The custodian may, for any reason (e.g., due to limitations of its charter or bylaws), require a qualified family member who becomes the designated beneficiary to take a total distribution of the Coverdell ESA by December 31 of the year following the year of the original designated beneficiary's death.

#### **10.07 Termination of Agreement, Resignation, or Removal of Custodian –**

Either the custodian or the responsible individual may terminate this agreement at any time by giving written notice to the other. The custodian can resign as custodian at any time effective 30 days after sending written notice of its resignation to the responsible individual. Upon receipt of that notice, the responsible individual must make arrangements to transfer the Coverdell ESA to another financial organization. If the responsible individual does not complete a transfer of the Coverdell ESA within 30 days from the date the custodian sends the notice to the responsible individual, the custodian has the right to transfer the Coverdell ESA assets to a successor Coverdell ESA trustee or custodian that the custodian chooses in its sole discretion, or the custodian may pay the Coverdell ESA balance to the designated beneficiary in a single sum. The custodian will not be liable for any actions or failures to act on the part of any successor trustee or custodian, nor for any tax consequences the designated beneficiary may incur that result from the transfer or distribution of the Coverdell ESA assets pursuant to this section.

If this agreement is terminated, the custodian may charge the Coverdell ESA a reasonable amount of money that it believes is necessary to cover any associated costs, including but not limited to one or more of the following.

- Any fees, expenses, or taxes chargeable against the Coverdell ESA
- Any penalties or surrender charges associated with the early withdrawal of any savings instrument or other investment in the Coverdell ESA

If the custodian is a nonbank custodian required to comply with Regulations section 1.408-2(e) and fails to do so or the custodian is not keeping the records, making the returns or sending the statements as are required by forms or regulations, the IRS may require the custodian to substitute another trustee or custodian.

The custodian may establish a policy requiring distribution of the entire balance of this Coverdell ESA to the designated beneficiary in cash or property if the balance of this Coverdell ESA drops below the minimum balance required under the applicable investment or policy established.

**10.08 Successor Custodian –** If the custodian's organization changes its name, reorganizes, merges with another organization (or comes under the control of any federal or state agency), or if the entire organization (or any portion that includes this Coverdell ESA) is bought by another organization, that organization (or agency) will automatically become the trustee or custodian of this Coverdell ESA, but only if it is the type of organization authorized to serve as a Coverdell ESA trustee or custodian.

**10.09 Amendments –** The custodian has the right to amend this agreement at any time. Any amendment the custodian makes to comply with the Internal Revenue Code and related regulations does not require the consent of either the responsible individual or the depositor. The responsible individual will be deemed to have consented to any other amendment unless, within 30 days from the date the custodian sends the amendment, the responsible individual notifies the custodian in writing that the responsible individual does not consent.

**10.10 Withdrawals or Transfers –** All requests for withdrawal or transfer will be in writing on a form provided by or acceptable to the custodian. The method of distribution must be specified in writing or in any other method acceptable to the custodian. The tax identification number of the designated beneficiary or death beneficiary must be provided to the custodian before the custodian is obligated to make a distribution. Withdrawals will be subject to all applicable tax and other laws and regulations, including but not limited to possible early distribution penalty taxes, surrender charges, and withholding requirements.

**10.11 Transfers From Other Plans –** The custodian can receive amounts transferred to the Coverdell ESA from the trustee or custodian of another Coverdell ESA.

**10.12 Liquidation of Assets –** The custodian has the right to liquidate assets in the Coverdell ESA if necessary to make distributions or to pay fees, expenses, taxes, penalties, or surrender charges properly chargeable against the Coverdell ESA. If the responsible individual fails to direct the custodian as to which assets to liquidate, the custodian will decide, in its complete and sole discretion, and the responsible individual agrees not to hold the custodian liable for any adverse consequences that result from the custodian's decision.

**10.13 Restrictions on the Fund –** Neither the responsible individual, the designated beneficiary (nor anyone acting on behalf of the designated beneficiary), the depositor nor any contributor may sell, transfer or pledge any interest in the Coverdell ESA in any manner whatsoever, except as provided by law or this agreement.

The assets in the Coverdell ESA will not be responsible for the debts, contracts, or torts of the responsible individual, the designated beneficiary, the depositor, or any person entitled to distributions under this agreement.

**10.14 What Law Applies –** This agreement is subject to all applicable federal and state laws and regulations. If it is necessary to apply any state law to interpret and administer this agreement, the law of the custodian's domicile will govern.

If any part of this agreement is held to be illegal or invalid, the remaining parts will not be affected. Neither the responsible individual's nor the custodian's failure to enforce at any time or for any period of time any of the provisions of this agreement will be construed as a waiver of such provisions, or the parties' right thereafter to enforce each and every such provision.

**10.15 Broker** – The Broker will be responsible for the execution of securities orders. The Broker may require that you sign an agreement which sets forth, among other things, its responsibilities and your responsibilities regarding securities transactions for your IRA.

**10.16 Prohibited Transaction** – If during any taxable year you engage in a so-called "prohibited transaction" with respect to your regular IRA, Spousal IRA, SEP-IRA, or Rollover IRA, the account will lose its tax-exempt status. In this event, the fair market value of all account assets, valued as of the first day of such taxable year, will be deemed distributed to you and includible in your gross income. These prohibited transactions would include borrowing money from your account or pledging your account or any portion thereof as security for a loan. If you pledge your account or any portion thereof as security for a loan, such pledge position will be deemed distributed to you and includible in your gross income. If you have not yet attained age fifty-nine and one-half (59½) years of age, an additional excise tax equal to ten percent (10%) of the amount pledged will be imposed on such funds includible in gross income. Similarly, if your spouse engages in a prohibited transaction with respect to his or her account, it will result in the same consequences because he or she is the individual for whose benefit the account was established.

The assets in your IRA shall not be responsible for the debt, contracts or torts of any person entitled to distributions under this Agreement.

**10.17 Mediation/Arbitration** – If a dispute arises out of or relates to this agreement, or the performance or breach thereof, the parties agree first to try in good faith to settle the dispute by mediation under the commercial mediation rules of the American Arbitration Association, before resorting to the arbitration. Thereafter, any remaining unresolved controversy or claim arising out of or relating to this agreement, or the performance or breach thereof, shall be settled by arbitration in accordance with the commercial arbitration rules of the American Arbitration Association. Any mediation or arbitration shall be conducted in Canyon, TX. The sole arbitrator shall be a retired or former judge of the Randall or Potter County District Courts. Judgement upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

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## GENERAL INSTRUCTIONS

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*Section references are to the Internal Revenue Code unless otherwise noted.*

### WHAT'S NEW

**Military Death Gratuity** – Families of soldiers who receive military death benefits may contribute, subject to certain limitations, up to 100 percent of such benefits into an educational savings account. Publication 970, *Tax Benefits for Education*, explains the rules for rolling over the military death gratuity and lists eligible family members.

### PURPOSE OF FORM

Form 5305-EA is a model custodial account agreement that meets the requirements of section 530(b)(1) and has been pre-approved by the IRS. A Coverdell education savings account (ESA) is established after the form is fully executed by both the depositor and the custodian. This account

must be created in the United States for the exclusive purpose of paying the qualified elementary, secondary, and higher education expenses of the designated beneficiary.

If the model account is a trust account, see **Form 5305-E**, Coverdell Education Savings Trust Account.

**Do not** file Form 5305-EA with the IRS. Instead, the depositor must keep the completed form in its records.

## DEFINITIONS

**Custodian** – The custodian must be a bank or savings and loan association, as defined in section 408(n), or any person who has the approval of the IRS to act as custodian. Any person who may serve as a custodian of a Traditional IRA may serve as the custodian of a Coverdell ESA.

**Depositor** – The depositor is the person who establishes the custodial account.

**Designated Beneficiary** – The designated beneficiary is the individual on whose behalf the custodial account has been established.

**Family Member** – Family members of the designated beneficiary include his or her spouse, child, grandchild, sibling, parent, niece or nephew, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law, and the spouse of any such individual. A first cousin, but not his or her spouse, is also a "family member."

**Responsible Individual** – The responsible individual, generally, is a parent or guardian of the designated beneficiary. However, under certain circumstances, the responsible individual may be the designated beneficiary.

## IDENTIFICATION NUMBERS

The depositor and designated beneficiary's social security numbers will serve as their identification numbers. If the depositor is a nonresident alien and does not have an identification number, write "Foreign" in the block where the number is requested. The designated beneficiary's social security number is the identification number of his or her Coverdell ESA. If the designated beneficiary is a nonresident alien, the designated beneficiary's individual taxpayer identification number is the identification number of his or her Coverdell ESA. An employer identification number (EIN) is required only for a Coverdell ESA for which a return is filed to report unrelated business income. An EIN is required for a common fund created for Coverdell ESAs.

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## SPECIFIC INSTRUCTIONS

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**Note:** *The age limitation restricting contributions, distributions, rollover contributions, and change of beneficiary are waived for a designated beneficiary with special needs.*

**Article X** – Article X and any that follow may incorporate additional provisions that are agreed to by the depositor and custodian to complete the agreement. They may include, for example, provisions relating to: definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the custodian, custodian's fees, state law requirements, treatment of excess contributions, and prohibited transactions with the depositor, designated beneficiary, or responsible individual, etc. Attach additional pages as necessary.

**Optional Provisions in Article V and Article VI** – Form 5305-EA may be reproduced in a manner that provides only those optional provisions offered by the custodian.

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# DISCLOSURE STATEMENT

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## REQUIREMENTS OF A COVERDELL ESA

A. **Cash Contributions** – A Coverdell ESA contribution must be in cash.

B. **Maximum Contribution** – The total amount that may be contributed to any and all Coverdell ESAs on behalf of a designated beneficiary is \$2,000 per year, excluding rollover and transfer contributions.

Contributions may not be made to a Coverdell ESA after the designated beneficiary's 18th birthday, except in the case of a special needs beneficiary.

The Coverdell ESA contribution that may be made by a depositor is further limited if the depositor's modified adjusted gross income (MAGI) exceeds \$190,000 and he or she is a married individual filing jointly (\$95,000 for single taxpayers). Married individuals filing jointly with MAGI exceeding \$220,000 may not fund a Coverdell ESA. Single individuals with MAGI exceeding \$110,000 may not fund a Coverdell ESA. The MAGI limits apply only to depositors that are individuals.

If the depositor is married filing jointly with MAGI between \$190,000 and \$220,000, the maximum Coverdell ESA contribution is determined as follows: (1) subtract the depositor's MAGI from \$220,000, (2) divide the difference by \$30,000, and (3) multiply the result in step (2) by \$2,000. For example, if the depositor's MAGI is \$205,000, the maximum Coverdell ESA contribution that may be made by such depositor is \$1,000. This amount is determined as follows:  $[(\$220,000 \text{ minus } \$205,000) \text{ divided by } \$30,000] \text{ multiplied by } \$2,000$ .

If the depositor is a single tax filer with MAGI between \$95,000 and \$110,000, the maximum Coverdell ESA contribution is determined as follows: (1) subtract the depositor's MAGI from \$110,000, (2) divide the difference by \$15,000, and (3) multiply the result in step (2) by \$2,000. For example, if the depositor's MAGI is \$98,000, the maximum Coverdell ESA contribution that may be made by such depositor is \$1,600. This amount is determined as follows:  $[(\$110,000 \text{ minus } \$98,000) \text{ divided by } \$15,000] \text{ multiplied by } \$2,000$ .

The Coverdell ESA contribution that may be made by a depositor is not limited by contributions made by the depositor to Traditional or Roth IRAs. In addition, there is no earned income requirement to be eligible to contribute to a Coverdell ESA. There is no requirement that the depositor be related to the designated beneficiary in order to make contributions. In addition, the designated beneficiary may contribute to his or her own Coverdell ESA.

C. **Eligible Custodians** – The custodian of the Coverdell ESA must be a bank, savings and loan association, credit union, or person or entity approved by the Secretary of the Treasury.

D. **Commingling Assets** – The assets of the Coverdell ESA cannot be commingled with other property except in a common trust fund or common investment fund.

E. **Life Insurance** – No portion of the Coverdell ESA may be invested in life insurance contracts.

F. **Collectibles** – The assets of the Coverdell ESA may not be invested in collectibles (within the meaning of Internal Revenue Code (IRC) Sec. 408(m)). A collectible is defined as any work of art, rug or antique, metal or gem, stamp or coin, alcoholic beverage, or other tangible personal property specified by the Internal Revenue Service (IRS). However, specially minted United States gold and silver coins, and certain state-issued coins are permissible investments. Platinum coins and certain gold, silver, platinum or palladium bullion (as described in IRC Sec. 408(m)(3)) are also permitted as Coverdell ESA investments.

G. **Required Distributions** – Except in the case of a special needs beneficiary, the assets of the Coverdell ESA are required to be distributed to the designated beneficiary within 30 days of the designated beneficiary's attainment of age 30. The designated beneficiary will be subject to both income tax and an additional 10 percent penalty tax on the portion of the distribution that represents earnings, if the designated beneficiary does not have any qualified education expenses in that year.

Any balance remaining in the Coverdell ESA upon the death of the designated beneficiary will be distributed within 30 days of the designated beneficiary's death, unless a death beneficiary is named and the death beneficiary is a qualified family member under age 30. If the death beneficiary is a qualified family member under age 30, that individual will become the designated beneficiary as of the date of death. Qualified family members include the designated beneficiary's child, grandchild, or stepchild, brother, sister, stepbrother, or stepsister, nephew or niece, parents, stepparents, or grandparents, uncle or aunt, spouses of all the family members listed above, cousin, and the designated beneficiary's spouse.

If a qualified family member becomes the designated beneficiary, the custodian, if it so chooses for any reason (e.g., due to limitations of its charter or bylaws), may require a total distribution of the Coverdell ESA by December 31 of the year following the year of the original designated beneficiary's death.

H. **Responsible Individual** – The responsible individual is generally the parent or guardian of the designated beneficiary. However, the financial organization may establish a policy that permits someone other than the designated beneficiary's parent or legal guardian to serve as the responsible individual. Unless otherwise indicated on the application, the responsible individual may not change the designated beneficiary. If the depositor has indicated on the application that the responsible individual may change the designated beneficiary, the responsible individual may change the designated beneficiary to another member of the designated beneficiary's family. The responsible individual will perform the following duties.

1. Receive a copy of the plan agreement and disclosure statement,
2. Direct the custodian regarding the investment of contributions, including the ability to redirect the investment of the initial contribution,
3. Direct the custodian regarding the administration, management and distribution of the account, unless the plan agreement indicates otherwise,
4. Name a successor responsible individual if the need arises,
5. Notify the custodian of any address change for the individuals identified on the plan agreement,
6. Remove excess contributions made to the Coverdell ESA.

## INCOME TAX CONSEQUENCES OF ESTABLISHING A COVERDELL ESA

A. **Contributions Not Deducted** – No deduction is allowed for Coverdell ESA contributions, including transfer and rollover contributions.

B. **Contribution Deadline** – The deadline for making a Coverdell ESA contribution is the depositor's tax return due date (not including extensions). The depositor may designate a contribution as a contribution for the preceding taxable year in a manner acceptable to the custodian. For example, if the depositor is a calendar-year filer and



makes a Coverdell ESA contribution on or before the tax filing deadline, the contribution is considered to have been made for the previous tax year if the depositor designates it as such.

C. **Excess Contributions** – An excess contribution is any amount that is contributed to the Coverdell ESA that exceeds the eligible contribution limit. If the excess is not corrected timely, an additional penalty tax of six percent will be imposed on the excess amount. The procedure for correcting the excess is determined by the timeliness of the correction as identified below.

1. **Removal Before the Deadline.** The responsible individual should remove the excess contribution along with the earnings attributable to the excess, before June 1 of the year following the year for which the excess was made. An excess withdrawn by this deadline is not taxable upon distribution, but the designated beneficiary must include the earnings attributable to the excess in his or her taxable income for the year in which the excess contribution was made. The six percent excess contribution penalty tax will be avoided.

2. **Failure to Remove Before the Deadline.** Excess Coverdell ESA contributions that are not removed before June 1 of the year following the year for which the excess was made, are treated as contributions for the next calendar year. If, however, additional contributions are made for that year and the total amount results in an excess, the excess amount will be subject to a six percent penalty tax if not removed timely.

If additional contributions have been made for the next year, the amount of the excess equals the excess contribution for the current year, plus the excess contributions remaining from the preceding year, reduced by any distributions made during the current year.

The designated beneficiary must file IRS form 5329 to report and remit any additional penalty taxes to the IRS.

D. **Tax-Deferred Earnings** – The investment earnings of the Coverdell ESA are not subject to federal income tax as they accumulate in the Coverdell ESA. In addition, distributions of the Coverdell ESA earnings will be free from federal income tax if the distributions are taken to pay for qualified education expenses, as discussed below.

E. **Taxation of Distributions** – The taxation of distributions from the Coverdell ESA depends on whether or not the distributions are used for qualified education expenses.

1. **Qualified Education Expenses.** The designated beneficiary may take tax-free distributions from a Coverdell ESA to pay for elementary, secondary or post-secondary education expenses at an eligible educational institution. Such expenses include tuition, fees, books, supplies, special needs services, room and board, uniforms, transportation, academic tutoring and supplementary items or services (including extended day programs). Also qualifying are expenses for the purchase of computer technology or equipment, Internet access and related services, if such technology, equipment or services are to be used by the designated beneficiary or designated beneficiary's family during any of the years the designated beneficiary is in school. Qualified expenses may also include amounts contributed to a qualified tuition program.

2. **Nonqualifying Distributions.** If a designated beneficiary withdraws amounts from a Coverdell ESA that exceed the qualified education expenses for the same year, or the distributions are not used for qualified education expenses, a portion of the distributions will be taxable. The amount in excess of the qualified education expenses is taxable pro rata, based on the earnings and the basis in the account.

In most cases of a nonqualified distribution, the taxable portion of a Coverdell ESA distribution is also subject to an additional 10 percent penalty tax. There are several exceptions to the 10 percent penalty tax including distributions made payable

- a. to a designated death beneficiary of the Coverdell ESA or to the estate of the designated beneficiary following the death of the designated beneficiary;
- b. to the designated beneficiary if the designated beneficiary is disabled;
- c. to the designated beneficiary if the designated beneficiary received a qualified scholarship, an educational assistance allowance or an excludable payment exception, but only to the extent the distribution is not more than the amount of the scholarship, allowance or excludable payment, and
- d. to the designated beneficiary as a removal of excess along with the net income attributable.

3. **American Opportunity or Lifetime Learning Credits.** A designated beneficiary may claim the American Opportunity Credit (formerly the Hope Credit) or Lifetime Learning Credit on his or her federal income tax return in the same taxable year that a tax-free distribution from a Coverdell ESA is claimed, as long as the distribution(s) does not cover the same expenses claimed for the American Opportunity or Lifetime Learning Credit.

F. **Income Tax Withholding** – Any withdrawal from the Coverdell ESA is not subject to federal income tax withholding.

G. **Rollovers** – Coverdell ESA amounts may be rolled over to another Coverdell ESA of the same designated beneficiary or that of a qualified family member, provided that all of the applicable rollover rules are followed. Rollover is a term used to describe a tax-free movement of cash to a Coverdell ESA from another Coverdell ESA. The rollover rules are generally summarized below. These transactions are often complex. For questions regarding a rollover, please see a competent tax advisor.

1. **Coverdell ESA-to-Coverdell ESA Rollovers.** Assets distributed from a Coverdell ESA may be rolled over to another Coverdell ESA of the same designated beneficiary or that of a qualifying family member if the requirements of IRC Sec. 530(d)(5) are met. A proper Coverdell ESA-to-Coverdell ESA rollover is completed if all or part of the distribution is rolled over not later than 60 days after the distribution is received.

**Effective for distributions occurring on or after January 1, 2015,** the responsible individual is permitted to roll over only one distribution from a Coverdell ESA in a 12-month period, regardless of the number of Coverdell ESAs owned by the designated beneficiary. A distribution may be rolled over to the same Coverdell ESA or to another Coverdell ESA that is eligible to receive the rollover. For more information on rollover limitations, you may wish to obtain IRS Publication 970, *Tax Benefits for Higher Education*, from the IRS or refer to the IRS website at [www.irs.gov](http://www.irs.gov).

2. **Qualified Family Member.** A Coverdell ESA may be rolled to another Coverdell ESA of the same designated beneficiary or to a Coverdell ESA maintained for the benefit of a qualified family member of the designated beneficiary, who is under the age of 30. The age 30 limitation does not apply to qualified family members who are special needs beneficiaries. Qualified family members of the designated beneficiary include the designated beneficiary's child, grandchild, or stepchild, brother, sister, stepbrother, or stepsister, nephew or niece, parents, stepparents, or grandparents, uncle or aunt, spouses of all the family members listed above, cousin, and designated beneficiary's spouse.

3. **Rollover of Military Death Benefits.** If a designated beneficiary receives or has received a military death gratuity or a payment from the Servicemembers' Group Life Insurance (SGLI) program, the designated beneficiary may be able to roll over the proceeds to the Coverdell ESA. The rollover contribution amount is limited to the sum of the death benefits or SGLI payment received, less any such amount that was rolled over to a Roth IRA. Proceeds must be rolled over within one year of receipt of the gratuity or SGLI payment for deaths occurring on or after June 17, 2008. Any amount that is rolled over under this provision is considered nontaxable basis in the Coverdell ESA.

## LIMITATIONS AND RESTRICTIONS

- A. **Gift Tax** – Transfers of Coverdell ESA assets to a death designated beneficiary made during the designated beneficiary's life and at his or her request or because of the designated beneficiary's failure to instruct otherwise, may be subject to federal gift tax under IRC Sec. 2501.
- B. **Prohibited Transactions** – If the responsible individual engages in a prohibited transaction with the Coverdell ESA as described in IRC Sec. 4975, the Coverdell ESA will lose its tax-deferred status and the designated beneficiary must include the value of the earnings in his or her account in his or her gross income for the year.
- C. **Pledging** – If the responsible individual pledges any portion of the Coverdell ESA as collateral for a loan, the amount so pledged will be treated as a distribution and may be included in the designated beneficiary's gross income for that year to the extent that it represents earnings.

## OTHER

- A. **IRS Plan Approval** – The agreement used to establish this Coverdell ESA has been approved by the IRS. The IRS approval is a determination only as to form. It is not an endorsement of the plan in operation or of the investments offered.
- B. **Additional Information** – Additional information on Coverdell ESAs may be obtained from the District Office of the IRS. In particular IRS Publication 970, *Tax Benefits For Higher Education*, may be obtained by calling 1-800-TAX-FORM, or by visiting [www.irs.gov](http://www.irs.gov) on the Internet.
- C. **Important Information About Procedures for Opening a New Account** – To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial organizations to obtain, verify, and record information that identifies each person who opens an account. Therefore, when the depositor opens an account, he or she is required to provide his or her name, residential address, date of birth, and identification number. The custodian may require other information that will allow them to identify the depositor.