

**Coverdell Education Savings Custodial Account  
(Under section 530 of the Internal Revenue Code)**

**Introduction**

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 assigned the Custodial Account the sum indicated on the Application in cash.

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 above-listed amount 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 the 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 below, 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 named death beneficiary, the Responsible Individual shall be such Designated Beneficiary's parent or guardian.

**Option** (*This provision is effective only if checked on the Application*): The Responsible Individual shall 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. 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.

**ARTICLE VI**

Refer to the "Optional Provisions" box on the Application to determine if the Responsible Individual may change the beneficiary designated under this agreement to another member of the Designated Beneficiary's family described in section 529(e)(2) in accordance with the Custodian's procedures.

**ARTICLE VII**

1. The Depositor agrees to provide the Custodian with all the 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 from time to time to comply with the provisions of the Code and related regulations. Other amendments may be made with the consent of the Depositor and the Custodian whose signatures appear on the Application.

**ARTICLE X**

1. **Amendments**—The Custodian has the right to amend this Custodial Account Agreement at any time to comply with necessary laws and regulations, without the consent of the Depositor, Responsible Individual, or Designated Beneficiary. Such amendments may be made retroactively to comply with statutory or regulatory changes. Notwithstanding Article IX, the Custodian also has the right to amend this Custodial Account Agreement for any other reason with the consent of the Responsible Individual. The Responsible Individual is deemed to have automatically consented to any amendment unless the Responsible Individual notifies the Custodian, in writing, that the Responsible Individual does not consent to the amendment within 30 days after the Custodian mails a copy of the amendment to the Responsible Individual.

2. **Responsibilities**—The Custodian shall receive all contributions, shall make distributions and pay benefits from the Custodial Account, shall file such statements or reports as may be required, and do other things as may be required of an ESA Custodian. If applicable, and unless otherwise specified by the Depositor, the Responsible Individual, or the Designated Beneficiary, the Custodian, at its sole discretion from time to time, shall cast any votes that may be attributable to any interest under this agreement. The Custodian shall use reasonable care, skill, prudence, and diligence in the administration and investment of the Custodial Account and in executing any written instructions by the Depositor or Responsible Individual, and shall be entitled to rely on information submitted by the Depositor or Responsible Individual. The Custodian shall have no duties under this agreement and no responsibility for the administration of the Custodial Account, except for such duties imposed by law or this Custodial Account Agreement. The Custodian is authorized to invest all or part of the plan's assets in deposits of the financial organization acting as Custodian of this ESA. The Custodian has no responsibility or duty to determine whether contributions to, or distributions from, this ESA comply with the laws or regulations, or this Custodial Account Agreement. If the Custodian fails to enforce any of the provisions of this Agreement, such failure shall not be construed as a waiver of such provisions, or of the Custodian's right thereafter to enforce each and every such provision.

Notwithstanding Article V, the Custodian may set a policy allowing someone other than the parent or guardian of the Designated Beneficiary to serve as the Responsible Individual for this ESA if such individual is not prohibited by law from serving in that capacity.

3. **Resignation, Removal, and Appointment of Custodian**—The Custodian may resign at any time by giving 30 days prior written notice of such resignation to the Responsible Individual. The Responsible Individual shall fill any vacancy in the office of Custodian. If, after 30 days from notice of resignation, the Responsible Individual does not notify the Custodian, in writing, of the appointment of a successor Custodian of the ESA, the resigning Custodian has the right to appoint a successor Custodian of the ESA or, at its sole discretion, the resigning Custodian may transfer the ESA to a successor Custodian or distribute the ESA assets to the Responsible Individual for the benefit of the Designated Beneficiary. The Custodian is authorized to reserve such funds it deems necessary to cover any fees or charges against the ESA.

4. **Applicable Law**—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 shall govern.

5. **Severability**—If any part of this Agreement is held to be unenforceable or invalid, the remaining parts shall not be affected. The remaining parts shall be enforceable and valid as if any unenforceable or invalid parts were not contained herein.

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## General Instructions

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

### 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's 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.

### Specific Instructions

**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 or termination, removal of 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.

## ESA Custodial Disclosure Statement

Individuals and other entities may deposit up to \$2,000 per year into a Coverdell Education Savings Account (ESA) for a Designated Beneficiary. Amounts deposited in the account grow tax-free until distributed, and the Designated Beneficiary will not owe tax on any withdrawal from the account if the Designated Beneficiary's qualified education expenses for the year equal or exceed the amount of the withdrawal. If the Designated Beneficiary does not use the money for education, the account balance can be rolled over to the ESA of certain family members who can use it for qualified education expenses. The earnings portion of amounts withdrawn from an ESA that exceed the Designated Beneficiary's qualified education expenses in a taxable year are generally subject to income tax and to an IRS 10% penalty.

Q1: What is an ESA?

A1: An ESA is a trust or custodial account that is created or organized in the United States exclusively for the purpose of paying the qualified education expenses of the Designated Beneficiary of the account. The account must be designated as an ESA when it is created to be treated as an ESA for tax purposes.

Q2: For whom may an ESA contribution be made?

A2: An ESA contribution may be made for any Designated Beneficiary who is either under age 18 or a special needs beneficiary. A special needs beneficiary is an individual who, because of a physical, mental, or emotional condition (including learning disability) requires additional time to complete his or her education.

Q3: Where may an individual open an ESA?

A3: An individual may open an ESA with any bank, or other entity that has been approved to serve as a nonbank trustee or custodian of an individual retirement account (IRA), and the bank or entity is offering ESAs. Other entities that wish to offer ESAs but are not approved to serve as IRA trustees or custodians may seek approval by following the same IRS procedures used for approval of other IRA nonbank trustees. *See* Notice 97-57, 1997-43 I.R.B. (October 27, 1997).

Q4: When may a taxpayer contribute to an ESA for a Designated Beneficiary?

A4: Contributions for 2002 and thereafter may be made for a year at any time during the calendar year and up to the Designated Beneficiary's tax filing deadline, not including extensions.

Q5: How much may be contributed to a Designated Beneficiary's ESA?

A5: Up to \$2,000 per year in aggregate contributions may be made for the benefit of any Designated Beneficiary. The contributions may be placed in a single ESA or in multiple ESAs.

Q6: What happens if more than \$2,000 is contributed to an ESA on behalf of a Designated Beneficiary for a year?

A6: Aggregate contributions for the benefit of a Designated Beneficiary in excess of \$2,000 for a year are treated as excess contributions. If the excess contributions (and any net income or loss attributable to them) are not withdrawn from the Designated Beneficiary's account (or accounts) before June 1 of the year following the year for which the contribution was made, the excess contributions are subject to a 6 percent excise tax for each year the excess amount remains in the account. For contributions before 2002, if the excess contributions (aggregate contributions for the benefit of a Designated Beneficiary in excess of \$500 in a calendar year), and any net income or loss attributable to them, are not withdrawn from the Designated Beneficiary's account (or accounts) before the Designated Beneficiary's tax-filing deadline or April 15, if the Designated Beneficiary is not required to file a tax return, the excess contributions are subject to a 6 percent excise tax for each year the excess amount remains in the account.

Q7: May contributions other than cash be made to a Designated Beneficiary's ESA?

A7: No. ESAs are permitted to accept only contributions made in cash.

Q8: May contributors take a deduction for contributions made to an ESA?

A8: No.

Q9: Are there any restrictions on who can contribute to an ESA?

A9: Any individual or entity may be eligible to contribute up to \$2,000 to a Designated Beneficiary's ESA. If the contributor is an individual whose modified adjusted gross income for the taxable year is no more than \$95,000 (\$190,000 for married taxpayers filing jointly), such individual may contribute the full amount. For most taxpayers, modified adjusted gross income is the same as adjusted gross income. Taxpayers compute adjusted gross income as part of completing their Federal income tax return. For those few taxpayers who earn income abroad or receive income from certain American territories or possessions, modified adjusted gross income will be greater than adjusted gross income. In those cases, the individual's adjusted gross income will be increased by: (1) certain amounts that the individual earns abroad, (2) amounts effectively connected with the individual's conduct of a trade or business or derived from sources in Guam, American Samoa, or the Northern Mariana Islands (if the individual is a resident of the possession where the source of the income is located), and (3) amounts derived from sources in Puerto Rico (if the individual is a Puerto Rican resident). The \$2,000 maximum contribution per child is gradually reduced for individuals with modified adjusted gross income between \$95,000 and \$110,000 (between \$190,000 and \$220,000 for married taxpayers filing jointly). For example, an unmarried taxpayer with modified adjusted gross income of \$96,500 in a taxable year could make a maximum contribution per child of \$1,800 for that year. Taxpayers with modified adjusted gross income above \$110,000 (\$220,000 for married taxpayers filing jointly) cannot make contributions to anyone's ESA.

Q10: May a Designated Beneficiary contribute to his/her own ESA?

A10: Yes.

Q11: Does a taxpayer have to be related to the Designated Beneficiary to be eligible to contribute to the Designated Beneficiary's ESA?

A11: No.

Q12: How many ESAs may a Designated Beneficiary have?

A12: There is no limit on the number of ESAs that may be established for a Designated Beneficiary. However, for any given taxable year, the total aggregate contributions to all the accounts of a particular Designated Beneficiary may not exceed \$2,000.

Q13: May a Designated Beneficiary take a tax-free withdrawal from an ESA to pay qualified education expenses if the Designated Beneficiary is enrolled less than full-time at an eligible educational institution?

A13: Yes. Whether the Designated Beneficiary is enrolled full-time, half-time, or less than half-time, he/she may take a tax-free withdrawal to pay qualified education expenses.

Q14: What happens when a Designated Beneficiary withdraws assets from an ESA to pay for qualified education expenses?

A14: Generally, the withdrawal is tax-free to the Designated Beneficiary to the extent the amount of the withdrawal does not exceed the Designated Beneficiary's qualified education expenses.

Q15: What are "qualified education expenses"?

A15: "Qualified education expense" means post-secondary education expenses for tuition, fees, books, supplies, and equipment required for the enrollment or attendance of the Designated Beneficiary at an eligible educational institution. Qualified education expenses also include amounts contributed to a qualified state tuition program. Qualified education expenses also include room and board (the maximum room and board will be the amount applicable to the student in calculating the costs of attendance for federal financial aid programs under section 472 of the Higher Education Act of 1965, or, if greater, the actual amount charged as room and board by an eligible educational institution for the student living in housing owned or operated by the school) if the Designated Beneficiary is at least a half-time student at an eligible educational institution. A student will be considered to be enrolled at least half-time if the student is enrolled for at least half the full-time academic workload for the course of study

the student is pursuing as determined under the standards of the institution where the student is enrolled. The institution's standard for a full-time workload must equal or exceed the standards established by the Department of Education under the Education Act and set forth in 34 C.F.R. section 674.2(b). In addition, expenses for special needs services and certain elementary and secondary school expenses are considered qualified education expenses. This includes expenses for tuition, fees, academic tutoring, special need services, books, supplies, and other equipment incurred in connection with the enrollment or attendance of the beneficiary at a public, private, or religious school providing elementary or secondary education (kindergarten through grade 12) as determined under State law. Also included are room and board, uniforms, transportation, and supplementary items or services (including extended day programs) required or provided by such a school in connection with such enrollment or attendance of the Designated Beneficiary. Also included is the purchase of certain computer technology or equipment or Internet access and related services, if such technology, equipment, or services are to be used by the Designated Beneficiary and his family during any of the years he is in school. Computer software primarily involving sports, games, or hobbies, is not considered a qualified elementary and secondary school expense unless the software is educational in nature.

**Q16: What is an eligible educational institution?**

**A16:** An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution that is described in section 481 of the Education Act of 1965 (20 U.S.C. 1088) and, therefore, eligible to participate in the student aid programs administered by the Department of Education. This category includes virtually all accredited public, nonprofit, and proprietary postsecondary institutions. In addition, an eligible educational institution includes a public, private, or religious school providing elementary or secondary education (kindergarten through grade 12) as determined under state law.

**Q17: What happens if a Designated Beneficiary withdraws an amount from an ESA but does not have any qualified education expenses to pay in the taxable year he/she makes the withdrawal?**

**A17:** Generally, if a Designated Beneficiary withdraws an amount from an ESA and does not have any qualified education expenses during the taxable year, a portion of the distribution is taxable. The taxable portion is the portion that represents earnings that have accumulated tax-free in the account. The taxable portion of the distribution is also subject to a 10 percent additional tax unless an exception applies.

**Q18: Is a distribution from an ESA taxable if the distribution is contributed to another ESA?**

**A18:** Any amount distributed from an ESA and rolled over to another ESA for the benefit of the same Designated Beneficiary or certain members of the Designated Beneficiary's family is not taxable if the Designated Beneficiary of the receiving ESA is under age 30 or a special needs individual. An amount is rolled over if it is paid to another ESA on a date within 60 days after the date of the distribution. Members of the Designated Beneficiary's family include the Designated Beneficiary's spouse, a son or daughter, or a descendant of either; a stepson or stepdaughter; a brother, sister, stepbrother, or stepsister; the father or mother, or an ancestor of either; a stepfather or stepmother of the taxpayer; a son or daughter of a brother or sister; a brother or sister of the father or mother; a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law; or the spouse of any of these family members. A first cousin, but not his spouse, of the Designated Beneficiary is also considered a family

member. The annual contribution limit to ESAs does not apply to these rollover contributions.

**Q19: What happens to the assets remaining in an ESA after the Designated Beneficiary finishes his/her postsecondary education?**

**A19:** There are two options. The amount remaining in the account may be withdrawn for the Designated Beneficiary. The Designated Beneficiary will be subject to both income tax and the additional 10 percent tax on the portion of the amount withdrawn that represents earnings if the Designated Beneficiary does not have any qualified education expenses in the same taxable year he/she makes the withdrawal. Alternatively, if the amount in the Designated Beneficiary's ESA is withdrawn and rolled over (as described in Q&A18) to another ESA for the benefit of a member of the Designated Beneficiary's family, the amount rolled over will not be taxable.

**Q20: Rather than rolling over money from one ESA to another, may the Designated Beneficiary of the account be changed from one Designated Beneficiary to another without triggering a tax?**

**A20:** Yes, provided: (1) the terms of the particular Trust or Custodial Account permit a change in designated beneficiaries (each Trustee or Custodian will control whether options like this one are available in the accounts they offer), and (2) the new Designated Beneficiary is a member of the previous Designated Beneficiary's family. (See Q&A18).

**Q21: May a student or the student's parents claim the Hope Scholarship Credit or Lifetime Learning Credit for the student's expenses in a taxable year in which the student receives money from an ESA on a tax-free basis?**

**A21:** Yes, the Hope Scholarship Credit or the Lifetime Learning Credit may be taken for the same taxable year in which a tax-free distribution is taken from the ESA.

**Q22: May contributions be made to both a qualified state tuition program and an ESA on behalf of the same Designated Beneficiary in the same taxable year?**

**A22:** Yes, contributions to an ESA and a qualified state prepaid tuition plan may be made for the same year on behalf of a Designated Beneficiary.

#### **Addendum to Disclosure Statement**

**Custodial Fees.** The Custodian may charge reasonable fees for administering the Custodial Account, preparing reports, keeping records, and other services. Such fees may include, but are not limited to, opening fees, administration fees, transaction fees, transfer fees, closing fees, and investment commissions. The Custodian may also charge the Custodial Account the reasonable costs of fiduciary insurance, counsel fees, and reasonable compensation for its services as Custodian. Such fees, if any, may be: 1) charged directly to and deducted from the Custodial Account, and would reduce the account value of this ESA, or 2) billed directly to you. If the Custodian has a fee policy at the time this ESA is established, the Custodian will provide a separate fee schedule to you. The Custodian will give you at least 30 days prior notice before imposing a new fee or changing an existing fee.

**Designation/Change of Death Beneficiary.** The death beneficiary(ies) of this ESA may be designated on the Application contained herein, or in another form acceptable to the Custodian. Unless otherwise requested herein, each payment made pursuant to this designation: (a) shall be paid in equal shares to the primary beneficiary(ies) who are living at the time of the Designated Beneficiary's death; or (b) if no primary beneficiary(ies) shall be living at the time of the Designated Beneficiary's death, such payment shall be made in equal shares to the contingent beneficiary(ies) who are then living. If a death beneficiary is a family member of the Designated Beneficiary, and the death beneficiary is under age 30 or a special needs individual, the death beneficiary shall become the Designated Beneficiary as of the date of death. The Responsible Individual has the right to change this designation at any time.