

Education Savings Accounts

A Coverdell Education Savings Account (**formerly known as an education IRA**) allows nondeductible annual contributions of up to \$2,000 per child under the age of 18. Eligibility begins phasing out at \$95,000 **modified adjusted gross income (MAGI)** for single taxpayers and \$190,000 MAGI for married individuals filing jointly. Contributions enjoy tax-deferred accumulation and can be withdrawn tax free if used for education expenses. However, a 10% income tax penalty and ordinary income taxes are incurred on “nonqualified” distributions (money withdrawn and spent on noneducation expenses). In addition, there may also be penalties incurred for contributing too much to a Coverdell Education Savings Account.

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