

ESA Account Application



To open and fund your new account(s), please provide all the information requested. Be sure to initial any corrections or cross-outs. Any corrections to the Tax ID or SSN will require the submission of a new W-9. If the account holder is a non-US Person, the appropriate IRS form W-8 must be provided from the non-US holder.

Account Number

Step 1. Advisor Details

Advisory Firm or Money Manager Firm Name

RIA or Money Manager Firm Number

Advisory Representative 1 Name

Rep ID

Advisory Representative 2 Name *(if applicable)*

Rep ID

Step 2. Designated Beneficiary Information

The individual for whom this account is being established for.

Designated Beneficiary Details

First Name

Middle Initial

Last Name

Social Security Number

Date of Birth *(mm/dd/yyyy)*

1. Contact Information

Home Phone

Mobile Phone

Email Address

Legal Address

Address 1

Address 2

(Required, no

P.O. Boxes)

City

State

Zip Code

Country

Province

Foreign Postal Code

Mailing Address

Address 1

Address 2

(If different from legal address)

City

State

Zip Code

Country

Province

Foreign Postal Code

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Step 3. Responsible Individual Information

The individual responsible for managing the account.

Relationship to Designated Beneficiary _____

You are responsible for ensuring you meet the agreement's requirements to act as Responsible Individual (generally a parent or legal guardian).

First Name **Middle Initial** **Last Name** **Social Security Number**

Date of Birth (mm/dd/yyyy)

1. Contact Information

Home Phone **Mobile Phone** **Business Phone** **Email Address (Required for eDelivery)**

Legal Address (Required, no P.O. Boxes)

Address 1 _____
Address 2

City _____
State _____
Zip Code

Country _____
Province _____
Foreign Postal Code

Mailing Address (If different from legal address)

Address 1 _____
Address 2

City _____
State _____
Zip Code

Country _____
Province _____
Foreign Postal Code

2. Citizenship Status

All applicants must provide the information below and may include a copy of their identification to avoid delays in processing.
 Select one type of identification

U.S. Citizens Only:

- Driver's license or ID card issued by a state or outlying possession of the United States
- ID card issued by a federal, state or local government agency or entity
- U.S. Passport
- Certification of U.S. Citizenship (INS Form N-560 or N-561)

U.S. Resident Aliens Only: (Driver's License not accepted)

- Unexpired foreign passport with I-551 stamp or attached INS Form I-94 indicating unexpired employment authorization
- Permanent Resident Card or Alien Registration Receipt Card with photograph (INS Form I-551)

3. Employment (If Retired or Unemployed, please check the appropriate box below)

If Employed/Self-Employed, please complete all employment fields including occupation.

- Employed Self-Employed Retired Unemployed Homemaker Student

Employer Name

Employer's Address _____
City _____
State _____
Zip Code

Country _____
Province _____
Foreign Postal Code

Occupation - Required if Employed/Self-Employed is chosen above. Please choose the most accurate occupation type from the below:

- | | | | | |
|--------------------------------------|---|---|---|--|
| <input type="checkbox"/> Accountant | <input type="checkbox"/> Construction | <input type="checkbox"/> Government | <input type="checkbox"/> Manufacturing | <input type="checkbox"/> Retail |
| <input type="checkbox"/> Agriculture | <input type="checkbox"/> Customer Service | <input type="checkbox"/> Healthcare | <input type="checkbox"/> Marketing | <input type="checkbox"/> Social Services |
| <input type="checkbox"/> Artist | <input type="checkbox"/> Education | <input type="checkbox"/> Import-Export | <input type="checkbox"/> Military | <input type="checkbox"/> Transportation |
| <input type="checkbox"/> Aviation | <input type="checkbox"/> Engineer/Scientist | <input type="checkbox"/> Information Technology | <input type="checkbox"/> Nonprofit Professional | <input type="checkbox"/> Travel |
| <input type="checkbox"/> Banker | <input type="checkbox"/> Entertainment | <input type="checkbox"/> Insurance | <input type="checkbox"/> Office and Administrative | <input type="checkbox"/> Vehicle Sellers |
| <input type="checkbox"/> Casino | <input type="checkbox"/> Finance | <input type="checkbox"/> Legal Services | <input type="checkbox"/> Personal Care and Services | |
| <input type="checkbox"/> Clergy | <input type="checkbox"/> Food Services | <input type="checkbox"/> Maintenance | <input type="checkbox"/> Real Estate | |

4. Industry and Other Affiliations

Are you, your spouse, or any other immediate family members, including parents, in-laws, siblings, or dependents:

A. Employed by or associated with the securities industry (for example, a sole proprietor, partner, officer, director, branch manager, registered representative, or other associated person of a broker-dealer firm) **or a financial services regulator?**

- Yes No

If Yes, please specify entity below.

- | | |
|---|--|
| <input type="checkbox"/> Broker-Dealer or Municipal Securities Dealer | <input type="checkbox"/> FINRA or other Self-Regulatory Organization |
| <input type="checkbox"/> Investment Advisor | <input type="checkbox"/> State or Federal Securities Regulator |

Name of Entity(ies): _____

If this entity requires its approval for you to open this account, please provide a copy of the compliance letter of approval with this Application.

- I have included a copy of the required compliance letter of approval with this Application or one isn't required.
 A Compliance Letter of Approval is not required.

B. An officer, director or 10% (or more) shareholder in a publicly owned company?

- Yes No

 Name of company(ies) Symbol(s)

What is your title? 10% shareholder CEO CFO COO Other Officer

C. A senior military, governmental or political official in a non-US country?

- Yes No

 Name of country

Step 4. Depositor Information

The individual establishing the account.

- Depositor and Responsible Individual on this account are the same person. *Note, if this box is checked, the information in Step 4 below is not required.*

 First Name Middle Initial Last Name Social Security Number

 Date of Birth (mm/dd/yyyy)

Legal Address Address 1 Address 2

 City State Zip Code

 Country Province Foreign Postal Code

Step 5. Trusted Contact (Optional)

By choosing to provide information for a Trusted Contact Person ("TCP"), you authorize your Advisor to contact and to disclose information about you and your account(s) to the TCP:

- Provide the TCP with information about you or your account(s), but does not provide the TCP with the ability to transact on your account(s)
- Inquire about your current contact information or health status
- Inquire if another person or entity has legal authority to act on your behalf (e.g. legal guardian or conservator, executor, trustee, or holder of a power of attorney)

The TCP must be at least 18 years old, must be someone other than an account holder and cannot be your Advisor. The Advisor may provide the TCP information about you or your account(s) but does not allow the TCP the ability to transact on your account(s).

_____ First Name	_____ Middle Initial	_____ Last Name	
_____ Mailing Address	_____ City	_____ State	_____ Zip Code
_____ Country	_____ Province	_____ Foreign Postal Code	
_____ Email Address	_____ Phone Number (required)	_____ Relationship	

Step 6. ESA Elections

Important. Axos Clearing is not an administrator of an Education Savings Account. Depositor and responsible individual are responsible for operating, managing and maintaining ESA in accordance with the terms of the Coverdell ESA Account Agreement and elections made below.

Select an answer to each of the following questions. Note, 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 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 laws, 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?

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 names below is designated as the successor responsible individual. If no information is provided below, no Successor Responsible Individual will be designated.

_____ Name (First/MI/Last)	_____ SSN	_____ Relationship to Designated Beneficiary	
_____ Address	_____ City	_____ State	_____ ZIP

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Step 7. Death Beneficiary Designation

While death beneficiary names provided without the social security number or Tax Identification Number (TIN) will be maintained on file and will be included as a death beneficiary, these names will not be displayed in your online account inquiry application.

If any primary or contingent death beneficiary dies before the designated beneficiary, their interest and the interest of their heirs will terminate completely, and the percentage of account balance of any remaining primary death beneficiaries will be increased proportionately unless Per Stirpes is selected. If no primary death beneficiaries survive the designated beneficiary, the contingent death beneficiaries will acquire the account at their designated percentages. Per Stirpes means that if any Primary or Contingent Death Beneficiary does not survive the Designated Beneficiary, but leaves surviving descendants, any share otherwise payable to such Death Beneficiary shall instead be paid to such Death Beneficiary's surviving descendants by right of representation. If I select the "Per Stirpes" box, I understand that if the listed Death Beneficiary dies before I do, that Death Beneficiary's share will pass to his or her living descendants, instead of being reallocated to the other remaining named Death Beneficiaries. If no designated death beneficiary survives designated beneficiary, or if I do not designate a death beneficiary, pay the full value of this ESA to the designated beneficiary's estate.

Trust as death beneficiary. To designate a trust as a death beneficiary, enter the death beneficiary information as follows:

- Death Beneficiary Name: Provide the full legal title of the trust. Include a list of all trustees and the date of the trust.
- Social security number: Provide the Tax Identification Number (TIN) or the social security number for the trust.
- Percent of account balance: Provide the percentage allocated to the trust.

If the Tax Identification Number (TIN) for a trust is the same as another death beneficiary's social security number, the death beneficiary information for the trust will be maintained on file and will be included as a death beneficiary, but the trust will not be displayed in your online account inquiry application.

The share percentages must add up to 100% for the designated primary death beneficiaries and 100% for the designated contingent death beneficiaries. If the percentages do not add up to 100%, Axos Advisor Services will assume those death beneficiaries will receive equal shares. If death beneficiary allocation totals at least 99%, but less than 100% (e.g., three named death beneficiaries are each assigned a 33.33% interest in the account), AAS will assign the unallocated remainder to the first death beneficiary. If Primary or Contingent is not marked, the death beneficiary will be deemed Primary. The death beneficiary(ies) must be named in this section. For example, the terms 'spouse', 'children', or 'per stirpes' are not acceptable designations for "Death Beneficiary Name". Death beneficiary information can be provided and/or modified at any time by completing and signing a subsequent ESA Death Beneficiary Designation or Change Request form.

Type of Death Beneficiary	Death Beneficiary Name	SSN/TIN	DOB	Relationship	Share
<input type="checkbox"/> Primary	_____	_____	_____	_____	_____ %
<input type="checkbox"/> Per Stirpes	_____	_____	_____	_____	_____ %
<input type="checkbox"/> Primary <input type="checkbox"/> Contingent	_____	_____	_____	_____	_____ %
<input type="checkbox"/> Per Stirpes	_____	_____	_____	_____	_____ %
<input type="checkbox"/> Primary <input type="checkbox"/> Contingent	_____	_____	_____	_____	_____ %
<input type="checkbox"/> Per Stirpes	_____	_____	_____	_____	_____ %
<input type="checkbox"/> Primary <input type="checkbox"/> Contingent	_____	_____	_____	_____	_____ %
<input type="checkbox"/> Per Stirpes	_____	_____	_____	_____	_____ %
<input type="checkbox"/> Primary <input type="checkbox"/> Contingent	_____	_____	_____	_____	_____ %
<input type="checkbox"/> Per Stirpes	_____	_____	_____	_____	_____ %

Additional death beneficiary information provided (please attach)

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Step 8. Account Funding and Features

A. Cash Sweep (choose one)

- I hereby provide my consent and authorization to participate in the Axos Advisor Services Insured Deposit Program. I acknowledge that I have read and understand the terms and conditions of the Axos Advisor Services Insured Deposit Program provided at axosadvisorservices.com or by my advisor.
- I elect to not sweep free credits to the Axos Advisor Services Insured Deposit Program, and I understand I will not receive interest on my cash balance.

B. Initial Funding Source (choose one)

What is the initial source of funds for this account? If you are transferring assets from another financial institution, please indicate the origin of those funds.

- Business Revenue Inheritance Sale of Business or Property
- Employment Income Investments Other (Specify) _____
- Gift Retirement Assets

C. Purpose and Expected Use of the Account (choose one)

- Investment account with frequent transfers Investing for estate planning Investing for tax planning
- Investing for College/Minor Investing for retirement Long-term investment with occasional transfers

Step 9. Electronic Delivery, Trade Confirmations, and Communications Preferences

A. Electronic Delivery

If you provided an email address in Step 3 you will receive account statements, tax statements, shareholder communications and future account related documents via electronic delivery. Following account opening, you will receive an email from Axos Advisor Services asking you to click the Enroll in eDelivery button to confirm and complete your enrollment for electronic delivery. If you do not provide an email address in Step 3, you will receive documents via U.S. Mail to the mailing address you have provided in Step 3. If the email address provided is returned as undeliverable or if you do not click in the Enroll in eDelivery button in the email you receive, Axos Advisor Services will attempt to send these documents via U.S. Mail to the mailing address you have provided. To change your document delivery preferences and to view the electronic delivery terms at any time, you can log on to your client portal.

B. Trade Confirmations

- By checking this box, you will receive trade confirmations within your periodic account statements. If unselected, you will receive a confirmation for each trade made by you or your advisory firm.** These trade-by-trade confirmations will be delivered to you in hardcopy by U.S. Mail if you have elected not to enroll in electronic delivery. If you elect to receive trade confirmations in your periodic account statements, you may still retrieve trade-by-trade confirmations at any time by logging on to your client portal the day after a trade is executed. Historical trade confirmations will also be available through this same electronic portal. There is no additional cost to you if you elect to check or not to check this box.

C. Communication Preferences

- Check this box to opt out from communications from corporations whose securities you hold in your account for additional corporate communications (e.g., proxies).

Step 10. Duplicate Statements for an Interested Party (Optional)

If you would like to provide the following duplicate documents to an interested party, please complete the information below:

Options (both may be selected): Paper Statements Tax Forms

Name		Company Name (if any)	
Mailing Address	City	State	Zip Code
Country	Province	Foreign Postal Code	

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Step 11. Limited Power of Attorney

LIMITED TO PURCHASE AND SALE OF SECURITIES.

By signing and returning this application, you hereby appoint the Advisor Firm or individual named in Step 1 as your Advisor and attorney-in-fact ("Advisor"), to execute, buy, sell (including short sales), and trade in stocks, bonds, and any other securities and/or contracts relating to the same in accordance with this application, the RIA Customer Agreement, and any other agreement applicable to this account held in your name, or number on our books, without notice to you. Your Advisor is authorized to affect such transactions in your account via any available medium, electronic access or otherwise, including but not limited to electronic access via personal computer or phone. You hereby acknowledge that investment related materials, including annual reports and initial purchase prospectus materials, will be delivered to your Advisor unless your Advisor requests that they be delivered to the account holder(s).

You hereby agree to indemnify and hold harmless Axos Clearing LLC ("Axos Clearing"), its affiliates and their directors, officers, employees, and advisors, including all of those associated with or under its Axos Advisor Services name, from and against all claims, actions, costs, and liabilities, including attorneys' fees, arising out of or related to reliance on this authorization and to pay promptly on demand any and all losses arising therefrom or debit balance due thereon. In all such purchases, sales, or trades, Axos Clearing is authorized to follow the instructions of your Advisor in every respect concerning your account with Axos Clearing; and your Advisor is authorized to act for you and on your behalf in the same manner and with the same force and effect as you might or could do with respect to such purchases, sales, or trades, as well as with respect to all other things necessary or incidental to the furtherance or conduct of such purchases, sales, or trades, including without limitation the delivery of securities or monies from the account in the account holder(s) name and the provision of securities cost basis method selection and/or information for purposes of cost basis or tax reporting.

You hereby ratify and confirm any and all transactions with Axos Clearing heretofore or hereafter made by your Advisor for your account. This authorization and indemnity is in addition to, and in no way limits or restricts, any rights which Axos Clearing may have under any other agreement or agreements between you and Axos Clearing.

If this is a fiduciary account, account holder(s) affirm(s) that this grant of limited trading authority has been conferred consistent with any fiduciary duties or powers of account holder(s).

This authorization is a continuing one and shall remain in full force and effect until (i) Axos Clearing is notified by a written notice delivered to Axos Clearing of your death or incapacity or (ii) you change or revoke this authorization by a written notice to Axos Clearing. Axos Clearing shall have no duty of inquiry. Until Axos Clearing receives such written revocation, Axos Clearing is entitled to act in reliance on this authorization and indemnity. Any revocation of this authorization shall have no effect on any liability which results from transactions initiated before Axos Clearing receives written notice of revocation. This authorization and indemnity shall inure to the benefit of Axos Clearing and of any successor firm or firms, irrespective of any change or changes at any time in the personnel thereof for any causes whatsoever, and of the assigns of Axos Clearing or any successor firms.

You have carefully read this power of attorney and indemnity and understand that it authorizes your Advisor named herein to exercise rights and powers over your accounts as if you had exercised them yourself and that your Advisor's actions and instructions with respect to your accounts are fully binding on you. You agree to have your Advisor receive duplicate statements and trade confirmations

Step 12. Authorization to Pay Fees to Advisor

By signing and returning this application, you hereby authorize Axos Clearing to calculate, debit your account and pay the Advisor Firm identified in Step 1, the Advisor's management fees as negotiated by you through your agreement with your Advisor. You also authorize Axos Clearing to liquidate shares of any money market mutual fund or bank deposit sweep you may hold in your account to the extent necessary to pay such fees. Axos Clearing shall rely on Advisor's instructions and have no responsibility for the verification of such instructions or fees.

You will indemnify and hold Axos Clearing and its affiliates, directors, officers, employees, successors, and assigns harmless from all losses, claims, damages, liabilities, and costs, including attorneys' fees, which Axos Clearing may incur by relying upon any representation from your designated Advisor or upon you making this authorization. This authorization will remain in full force and effect until revoked by you by a written notice addressed and delivered to Axos Clearing.

Step 13. W-9 Certification

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct Social Security Number or Taxpayer Identification Number (or I am waiting for a number to be issued to me), and
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service ("IRS") that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and
3. I am a US citizen or other US person (defined below), and
4. The FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.

Definition of a US Person

For federal tax purposes, you are considered a US person if you are:

- An individual who is a US citizen or US resident alien,
- A partnership, corporation, company, or association created or organized in the United State or under the laws of the United States,
- An estate (other than a foreign estate), or
- A domestic trust (as defined in IRS Regulations section 301.7701-7)

Certification instructions

You must cross out Item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement ("IRA"), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN.

- A. If you are an exempt payee (if unsure, please consult your tax professional), enter your exempt payee code (if any) here: _____
- B. If you are exempt from FATCA reporting (if unsure, please consult your tax professional), enter your exemption from FATCA reporting code (if any) here: _____

The IRS does not require your consent to any provision of this document other than the certifications required to avoid backup withholding. BY SIGNING THIS AGREEMENT, YOU ACKNOWLEDGE THAT SECURITIES NOT FULLY PAID FOR MAY BE LOANED TO AXOSCLEARING LLC OR LOANED OUT TO OTHERS.

PLEASE NOTE THAT THIS ACCOUNT APPLICATION AND AGREEMENT CONTAINS A PREDISPUTE ARBITRATION AGREEMENT IN THE TERMS AND CONDITIONS ACCOMPANYING THIS ACCOUNT APPLICATION AND AGREEMENT, WHICH GOVERNS DISPUTES YOU MAY HAVE WITH AXOS CLEARING LLC. YOU ACKNOWLEDGE RECEIVING A COPY OF THIS ACCOUNT APPLICATION AND AGREEMENT. SHOULD YOU HAVE A DISPUTE WITH YOUR ADVISOR, PLEASE REFER TO THE TERMS AND CONDITIONS OF YOUR AGREEMENT WITH YOUR ADVISOR TO DETERMINE HOW IT REQUIRES RESOLUTION OF ANY SUCH DISPUTES.

Step 14. Signatures

To help the government fight the funding of terrorism and money laundering activities, federal laws require all financial organizations to obtain, verify and record information that identifies each person who opens an account. That means that Axos Clearing will ask for your name, address, date of birth and other information that will allow us to identify you. We may also require a copy of your driver's license or other government-issued identifying document.

By signing this Account Application and Agreement, you affirm that you are of full legal age in the state of jurisdiction in which you reside and have the capacity to be bound by the terms and conditions of this Account Application and Agreement. You further affirm that you have read, understood and agree to the Terms and Conditions attached to this Account Application and Agreement.

By signing this Account Application and Agreement, you certify that you have received, reviewed, understood, and agree to the terms and conditions stated in the Coverdell ESA Account Agreement. The depositor assumes responsibility for determining that they are 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 (1) ensuring that all future contributions are within the limits set forth by the tax laws (2) certifying that they are qualified to assume the responsibility of the responsible individual as set forth in the Coverdell ESA Custodial Account Agreement, and (3) managing and administering the Coverdell ESA and authorizing transactions involving contributions (including rollover contributions) and distributions.

Signatures

x ESA Responsible Individual Signature	Print Name	Date
x ESA Depositor Signature (if different from Responsible Individual)	Print Name	Date

Approvals

x Axos Principal Signature	Print Name	Date
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Investment Products: Not FDIC Insured • No Bank Guarantee • May Lose Value

COVERDELL ESA CUSTODIAL ACCOUNT AGREEMENT

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

FORM (Rev. October 2016)

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 Coverdell ESA – The responsible individual has exclusive responsibility for and control over the investment of the assets of this Coverdell ESA. All transactions will be subject to any and all restrictions or limitations, direct or indirect, that are imposed by the custodian's charter, articles of incorporation, or bylaws; any and all applicable federal and state laws and regulations; the rules, regulations, customs, and usages of any exchange, market, or clearinghouse where the transaction is executed; the custodian's policies and practices; and this agreement. The custodian will have no discretion to direct any investment in this Coverdell ESA. The custodian assumes no responsibility for rendering investment advice with respect to this Coverdell ESA, nor will the custodian offer any opinion or judgment to the responsible individual or depositor on matters concerning the value or suitability of any investment or proposed investment for this Coverdell ESA. In the absence of instructions from the responsible individual or depositor, or if the instructions are not in a form acceptable to the custodian, the custodian will have the right to hold any uninvested amounts in cash, and the custodian will have no responsibility to invest uninvested cash unless and until directed by the responsible individual. The custodian will not exercise the voting rights and other shareholder rights with respect to investments in this Coverdell ESA unless timely, written directions are provided and are acceptable to the custodian.

The responsible individual will select the investment for the Coverdell ESA assets from those investments that the custodian is authorized by its charter, articles of incorporation, or bylaws to offer and does in fact offer for Coverdell ESAs (e.g., term share accounts, passbook accounts, certificates of deposit, money market accounts).

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.

GENERAL INSTRUCTIONS

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” on the return for which is filed to report the depositor’s information. 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 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.

DISCLOSURE STATEMENT

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 Education*, from the IRS or refer to the IRS website at 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 Education*, may be obtained by calling 1-800-TAX-FORM, or by visiting 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.