# Coverdell Education Savings Account Packet

COOK & BYNUM

This packet contains:

- The Cook & Bynum Fund Coverdell Education Savings Account Application
- UMB, N.A. IRA Custodian Application

**Both applications must be completed, signed and returned to Commonwealth Fund Services (CFS) to establish your Coverdell Education Savings Account.**

**Regular or Overnight Mail**:
The Cook & Bynum Fund
c/o Commonwealth Fund Services
8730 Stony Point Parkway Suite 205
Richmond, VA 23235

**For additional information please call toll-free 877-839-COBY (2629) or visit us on the web at www.cookandbynum.com/cobyx.**

COOK & BYNUM

# Coverdell Education Savings Account Application

In compliance with the USA PATRIOT Act, all financial institutions (including mutual funds) are required to obtain, verify and record the following information for all registered owners or others who may be authorized to act on an account: **full name, date of birth, Social Security number and permanent street address**. This information will be used to verify your true identity. We will return your application if any of this information is missing, and we may request additional information from you for verification purposes. In the rare event that we are unable to verify your identity, the Fund reserves the right to redeem your account at the current day's net asset value.

## 1 Designated Beneficiary | Account Holder

FULL LEGAL FIRST NAME* | M.I. | LAST NAME

PERMANENT STREET ADDRESS (PO BOX NOT ACCEPTABLE) | CITY / STATE / ZIP

SOCIAL SECURITY NUMBER | DATE OF BIRTH (MM/DD/YYYY) | ❑ Check if minor should receive statements.

## 2 Responsible Party

FULL LEGAL FIRST NAME* | M.I. | LAST NAME

PERMANENT STREET ADDRESS (PO BOX NOT ACCEPTABLE) | CITY / STATE / ZIP

SOCIAL SECURITY NUMBER | DATE OF BIRTH (MM/DD/YYYY) | RELATIONSHIP TO DESIGNATED BENEFICIARY

DAYTIME PHONE NUMBER | EMAIL ADDRESS

***If a full legal first name is not provided, a copy of a government issued document is required to accompany this application.**

## 3 Account Type

Refer to disclosure statement for eligibility requirements and contribution limits.

Select one of the following account types:

❑ Coverdell Education Savings Account (CESA)

For Tax Year _____

Rollover Account – specify the type of rollover:

❑ Account Holder's CESA to Account Holder's CESA

❑ Qualifying Family Member's CESA to Account Holder's CESA

❑ Transfer Account – a direct transfer from current CESA custodian.

The following 2 options will be added to your account. If you do not want these options, check the boxes below.

I. The responsible party wishes to continue to control the account after the Account Holder attains age of majority in his/her state in accordance with the terms described in the optional portion of Article V of the Coverdell Education Savings Account agreement.

❑ The responsible party does not wish to control the account after age of majority.

II. The responsible party may change the beneficiary designated under this agreement to another member of the designated beneficiary's family described in Article VI of the Coverdell Education Savings Account agreement.

❑ The responsible party may not change the beneficiary.

## 4 Investment Choice

❑ **By check:** Make check payable to The Cook & Bynum Fund.

Note: All checks must be in U.S. Dollars drawn on a domestic bank. The Fund will not accept payment in cash or money orders. The Fund does not accept post dated checks or any conditional order or payment. To prevent check fraud, the Fund will not accept third party checks, Treasury checks, credit card checks, traveler's checks or starter checks for the purchase of shares.

❑ **By wire:** Call 877-839-COBY (2629).

Note: A completed application is required in advance of a wire.

**Investment Amount**
$1,000 Minimum

❑ The Cook & Bynum Fund $ _____

## 5 Telephone and Internet Options

**You have the ability to make telephone and/or internet purchases* or redemptions* per the prospectus by checking the box below. See the prospectus for minimum and maximum amounts.**

* You must provide bank instructions and a voided check or savings deposit slip in the Bank Information section.

❑ **I accept telephone and/or internet transaction privileges.**

Should you wish to add the options at a later date, a signature guarantee may be required. Please refer to the prospectus or call our shareholder services department for more information.

## 6 Automatic Investment Plan (AIP)

Your signed application must be received up to 7 business days prior to initial transaction.

If you choose this option, funds will be automatically transferred from your bank account. Please attach a voided check or savings deposit slip to the Bank Information section of this application. We are unable to debit mutual fund or pass-through ("for further credit") accounts.

**Draw money for my AIP Monthly**

$100 minimum

❑ The Cook & Bynum Fund

| AMOUNT PER DRAW | AIP START MONTH | AIP START DAY |
|---|---|---|
| | | |

**Please keep in mind that:**

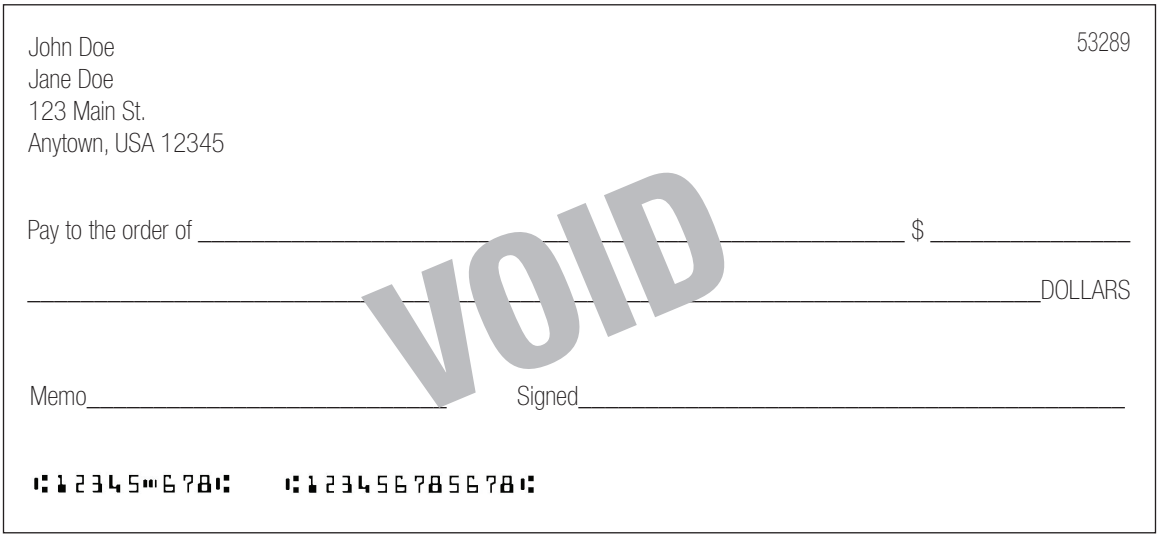
- There is a fee if the automatic purchase cannot be made (assessed by redeeming shares from your account).
- Participation in the plan will be terminated upon redemption of all shares.

## 7 Bank Information

If you selected any options which require banking information, please attach a voided check or preprinted savings deposit slip. We are unable to debit or credit mutual fund or pass-through ("for further credit") accounts.

Please contact your financial institution to determine if it participates in the Automated Clearing House System (ACH).

Note: There is a $15 fee for next day wire and no fee for ACH (transfer takes 2-3 days).



## 8 Beneficiary Information (Due to Death of Account Holder)

If you need more space, please enclose a separate sheet of paper.

### Primary

| NAME | RELATIONSHIP | SOCIAL SECURITY NUMBER | DATE OF BIRTH (MM/DD/YYYY) | % |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |

### Secondary

| NAME | RELATIONSHIP | SOCIAL SECURITY NUMBER | DATE OF BIRTH (MM/DD/YYYY) | % |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |

## 9 Signature and Certification Required by the Internal Revenue Service

✔ I have read and understand the Disclosure Statement and Custodial Account Agreement document. I adopt the Disclosure Statement and Custodial Account Agreement document, as it may be revised from time to time, and appoint the Custodian or its agent to perform those functions and appropriate administrative services specified.

✔ I have received and understand the prospectus for The Cook & Bynum Fund (the "Fund"). I understand the Fund's objectives and policies and agree to be bound by the terms of the prospectus. Before I request an exchange, I will obtain the current prospectus for each Fund. I acknowledge and consent to the householding (i.e., consolidation of mailings) of regulatory documents such as prospectuses, shareholder reports, proxy statements, and other similar documents. I may contact the Fund to revoke my consent. I agree to notify the Fund of any errors or discrepancies within 45 days after the date of the statement confirming a transaction. The statement will be deemed to be correct, and the Fund and its transfer agent shall not be liable, if I fail to notify the Fund within such time period. I certify that I, as the Responsible Party, am of legal age and have the legal capacity to make this purchase.

✔ I understand that the fees relating to my account may be collected by redeeming sufficient shares.

✔ I understand that my mutual fund account assets may be transferred to my state of residence if no activity occurs within my account during the inactivity period specified in my State's abandoned property laws.

✔ The Fund, its transfer agent, and any of their respective agents or affiliates will not be responsible for banking system delays beyond their control. By completing the banking sections of this application, I authorize my bank to honor all entries to my bank account initiated through UMB, N.A., on behalf of the applicable Fund. The Fund, its transfer agent, and any of their respective agents or affiliates will not be liable for acting upon instructions believed to be genuine and in accordance with the procedures described in the prospectus or the rules of the Automated Clearing House. When AIP or Telephone Purchase transactions are presented, sufficient funds must be in my account to pay them. I agree that my bank's treatment and rights to respect each entry shall be the same as if it were signed by me personally. I agree that if any such entries are not honored with good or sufficient cause, my bank shall be under no liability whatsoever. I further agree that any such authorization, unless previously terminated by my bank in writing, is to remain in effect until the Fund's transfer agent receives and has had reasonable amount of time to act upon a written notice of revocation.

| X | |
|---|---|
| DEPOSITOR / LEGALLY RESPONSIBLE INDIVIDUAL'S SIGNATURE | DATE (MM/DD/YYYY) |

**Please proceed to page 6 to review, complete and sign the UMB, N.A. IRA Custodian Application.**

## 10 Dealer Information

DEALER NAME

DEALER'S ID

BRANCH ID

REPRESENTATIVE'S LAST NAME

FIRST NAME

M.I.

REPRESENTATIVE'S ID

### DEALER HEAD OFFICE INFORMATION:

ADDRESS

CITY / STATE / ZIP

TELEPHONE NUMBER

### REPRESENTATIVE BRANCH OFFICE INFORMATION:

ADDRESS

CODE

CITY / STATE / ZIP

TELEPHONE NUMBER

# UMB, N.A. IRA Custodian Application

**This application must be completed for all Traditional IRA, Roth IRA, SEP IRA, SIMPLE IRA, Minor IRA or Coverdell Education Savings Account (CESA) where UMB National Association will serve as custodian.**

## 1 Investor Information

For Traditional IRA, Roth IRA, SEP IRA, and SIMPLE IRA accounts, the information provided in this section must be that of the account owner. For CESA and Minor IRA accounts, the information provided in this section must be that of the responsible party.

FULL LEGAL FIRST NAME* | M.I. | LAST NAME

SOCIAL SECURITY NUMBER | DATE OF BIRTH (MM/DD/YYYY)

***If a full legal first name is not provided, a copy of a government issued document is required to accompany this application.**

### Permanent Street Address

Residential Address or Principal Place of Business - Foreign addresses and PO Boxes are not allowed.

STREET | APT / SUITE

CITY | STATE | ZIP CODE

DAYTIME PHONE NUMBER | EVENING PHONE NUMBER

E-MAIL ADDRESS

### Mailing Address (if different from Permanent Address)

A PO Box may be used as the mailing address.

STREET | APT / SUITE

CITY | STATE | ZIP CODE

## 2 Custodian Agreement

This Agreement governs your Traditional IRA, Roth IRA, SEP IRA, SIMPLE IRA, Minor IRA or Coverdell Education Savings Account (CESA) with us. UMB National Association will serve as the non-discretionary, directed custodian of your account. We do not provide fiduciary investment advice on your account.

To open a new account for a Traditional IRA, Roth IRA, SEP IRA, SIMPLE IRA, Minor IRA or CESA , you must complete and sign this Custodian Application as well as the Fund's application and return the applications to us.

**General Powers**

We will have all powers necessary to carry out our duties under this Agreement, including (but not limited to) the following:

(1) To authorize additional forms of acceptable written notice to us, including (as we may periodically determine) facsimile, e-mail or other methods.
(2) To hold the assets of the Account without qualification or description in our name or the name of any nominee of us, or in any other form under which title will pass by delivery.
(3) To exchange information about you, your Beneficiary(ies) and Account with affiliated entities, as permitted by applicable law and regulations.

(4) To make, execute and deliver, as Custodian, any and all contracts, waivers, releases or other written documents with respect to the administration of the Account.
(5) To employ recordkeepers and other agents and to delegate such duties to them as we see fit and to employ or consult with experts, advisors and legal counsel (who may be employed also by you or your Beneficiary(ies)) and to rely on the information and advice received. We will be reimbursed by the Account or you (or, if you die, your Beneficiary(ies)), for costs incurred by us when employing such parties.
(6) To file class action litigation proofs of claim in respect to any of the assets of the Account.
(7) To change the fee schedule at any time.

**Indemnification**

(1) You hereby agree to indemnify and release us, and hold us harmless from and against, and we will incur no liability to any person for, any harm that may be imposed on, incurred by, or asserted against us by reason of our action or omission in connection with this Agreement or the Account (including, but not limited to, an action or omission that is consistent with directions provided under this Agreement), except to the extent that a court of competent jurisdiction has made a final judgment that the harm resulted directly from our willful misconduct, gross negligence, bad faith, or material breach of this Agreement.
(2) The foregoing provisions will survive the termination of this Agreement.

**Limitations on Duties**

Our duties are strictly limited to those set forth in this Agreement, and no implied covenants, duties, responsibilities, representations, warranties, or obligations will be read into this Agreement against us. Without limiting the generality of the foregoing, we have no duty to:

(1) Act as trustee of the IRA assets.
(2) Inspect, review or examine any asset that is neither registered in the name of the account (with us designated as custodian), us (with or without custodial designation) or our nominee nor maintained by us at any central securities depository (such as the Depository Trust Company) or Federal Reserve Bank or with a sub-custodian nor held by us in unregistered or bearer form or in such form as will pass title by delivery, or governing, offering, subscription, or similar document with respect thereto, to determine whether the asset or document is authentic, genuine, enforceable, properly signed, appropriate for the represented purpose, is what it purports to be on its face, or for any other purpose, or to execute such document, or to take physical possession of such asset or document.
(3) Question whether any direction received under this Agreement is prudent, consistent with the terms of this Agreement, or contrary to applicable law; to solicit or confirm directions; or to question whether any direction received under this Agreement by email, or entered into your account in an on-line portal, is unreliable or has been compromised.
(4) Monitor service providers hired by you.
(5) Maintain or defend any legal proceeding in the absence of indemnification, to our satisfaction, against all expenses and liabilities which we may sustain by reason thereof.
(6) Advance funds or securities or otherwise expend or risk its own funds or incur its own liability in the exercise of its powers or rights or performance of its duties under this Agreement.

**Change of Custodian**

Qualification of Successor

The successor custodian or trustee must be either a bank (as defined in Code section 408(n)) or a person who has IRS approval to serve in that capacity (as provided in Code section 408(h)).

Payment to Successor

Once we receive written acceptance of appointment by the successor custodian or trustee, we will transfer and pay over to the successor the assets of the Account, less any amount allowed to be reserved under this Agreement.

Successor Organizations

By designating a Custodian, original or successor, hereunder, there is included in such designation and as a part thereof any other corporation authorized by law to accept the Account into which or with which the designated Custodian, original or successor, is converted, consolidated or merged, and the corporation into which or with which any Custodian hereunder is so converted, consolidated or merged will continue to be the Custodian of the Account.

**Amendment or Termination of Agreement**

Power to Amend

You cannot amend this Agreement other than by changing an election or designation in the Application. You and your Beneficiary(ies) delegate to the Sponsor or its agent the power to amend this Agreement from time to time in any respect (unless otherwise expressly stated in this Agreement), without obtaining your approval or consent (or that of your Beneficiary(ies)). Either the Sponsor or its agent will furnish you a copy of any such amendment.

Limitation on Amendments

This Agreement may not be amended in any manner that would cause or permit any part of the Account to be diverted to purposes other than for your (or your Beneficiary's(ies')) exclusive benefit.

Termination

You may terminate this Agreement at any time by written notice to us.
Upon such termination, we will distribute the assets of the Account, less any amount reserved for payment of fees and expenses, to you (or your Beneficiary(ies)) or according to the directions of you (or your Beneficiary(ies)) and the provisions of this Agreement. We will comply with the directions we receive in proper form and will not be liable for any tax or any loss of any kind resulting from any action we take pursuant to such directions.

Transfer

At your written direction, we will transfer the assets of the Account, less any amount reserved for payment of fees and expenses, directly to the custodian or trustee (or other funding agent) of another individual retirement plan or of a qualified employer or government plan. We have no duty to ascertain whether such direction is proper under the Code or under the provisions of the plan receiving the transfer. We will comply with your (or your Beneficiary's(ies')) directions and will not be liable for any tax or any loss of any kind resulting from any action we take pursuant to such directions.

**Initial Adoption or Revocation**

(1) Adoption of Agreement. This Agreement will be effective once the Application has been signed by you and accepted by us, as evidenced by a confirmation or an Account statement.
(2) Revocation of Agreement. You may revoke this Agreement for any reason within seven calendar days after the date your signed applications are postmarked to us or, if earlier, the date we receive your initial payment to establish your IRA. If it is revoked during that period, the Agreement will be void from its inception, and we will return all assets you contributed and all fees you paid us. UMB National Association will not be responsible for any market losses or fees paid to us.
(3) We may close the Account if it is not funded within ninety (90) days of the Account opening, or if the account is drawn to a $0 balance.

## 3 Signature and Certification

By signing this application:

✔ You designate UMB National Association as the Custodian of your account. You have received, read and understand the Custodian Agreement (section 2) attached hereto.

✔ You agree to the terms and conditions of this Custodian Application, which includes the Custodian Agreement (section 2).

✔ You have read and understand the Disclosure Statement and Custodial Account Agreement document. You adopt the Disclosure Statement and Custodial Account Agreement document, as it may be revised from time to time, and appoint the Custodian or its agent to perform those functions and appropriate administrative services specified.

✔ You understand you have full responsibility for directing the investment of your account, and that no transactions will occur on your account unless you (or another person you have authorized) so direct. You acknowledge and agree that we do not provide services as a "fiduciary" under 29 U.S.C. Section 1002(21)(A)(ii), 26 U.S.C. Section 4975(e)(3)(B), 29 C.F.R. 2510.3-21, or 26 C.F.R. Section 54.4975-9 commonly known as "fiduciary investment advice." We will not provide fiduciary investment advice, and you will not construe or rely on any service provided by us to you as fiduciary investment advice. We are not your investment manager under 29 U.S.C. Section 1002(21)(A)(i) or 26 U.S.C. Section 4975(e)(3)(A). We neither have any discretionary authority or discretionary control respecting management of your IRA and any discretionary authority or discretionary responsibility in the administration of your IRA under 29 U.S.C. Section 1002(21)(A)(i) and (iii) or 26 U.S.C. Section 4975(e)(3)(A) and (C).

✔ You understand most investment products are not insured by the Federal Deposit Insurance Corporation ("FDIC"), are not deposits or other obligations of or guaranteed by us or our affiliates, and involve investment risks, including possible loss of the principal amount invested.

✔ You agree to disclose to UMB National Association if you, the beneficial owner(s), or authorized signer(s) is or becomes a "senior political figure, immediate family member, or close associate of a senior political figure" (as defined below), during the duration of the Custody Agreement.

- A "senior political figure" is a domestic or foreign senior official in the executive, legislative, administrative, military or judicial branches of a government (whether elected or not), a senior official of a major political party, or a senior executive of a government-owned corporation. In addition, a senior political figure includes any corporation, business, or other entity that has been formed by, or for the benefit of, a senior political figure.
- "Immediate family" of a domestic or foreign senior political figure typically includes the figure's parents, siblings, spouse, children, and in-laws.
- A "close associate" of a domestic or foreign senior political figure is a person who is widely and publicly known to maintain an unusually close relationship with the senior political figure, and includes a person who is in a position to conduct domestic and international financial transactions on behalf of the senior political figure.

✔ You agree that the information you completed herein is true, accurate, and complete.

| X | |
|---|---|
| DEPOSITOR / LEGALLY RESPONSIBLE INDIVIDUAL'S SIGNATURE | DATE (MM/DD/YYYY) |

Appointment as Custodian accepted:
UMB NATIONAL ASSOCIATION

## ! Before you mail, have you:

- ❑ Completed all USA PATRIOT Act required information on the Coverdell Education Savings Account Application and UMB, N.A. Custodian Application?
  - – Full Name
  - – Social Security Number
  - – Date of Birth
  - – Permanent street address
- ❑ Enclosed your personal check made payable to The Cook & Bynum Fund?
- ❑ Included a voided check or savings deposit slip, if applicable?
- ❑ Signed the Coverdell Education Savings Account Application and UMB, N.A. Custodian Application?
- ❑ Enclosed additional documentation, if applicable?

# Coverdell Education Savings Custodial Account

(Under section 530 of the Internal Revenue Code)

Form 5305-EA (Rev. October 2016) Department of the Treasury, Internal Revenue Service. Do not file with the Internal Revenue Service.

The Depositor named on the Application is establishing a Coverdell Education Savings Account (ESA) under section 530 for the benefit of the Designated Beneficiary 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 amount 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 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 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 applicable option in the Authority of Responsible Individual section of 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.

**Option** (This provision is effective only if checked in the Authority of Responsible Individual section of the Application or other document acceptable to the Custodian.) 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

Please refer to the Authority of Responsible Individual section of the Application to determine whether 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.


Copyright © 2021, Convergent Retirement Plan Solutions, LLC, Brainerd, MN 56401

## 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 the Custodian whose signatures appear on the Application.

## ARTICLE X

1. **Definitions**
   The *General Instructions* provided by the Internal Revenue Service (IRS) to accompany IRS Form 5305-EA include detailed definitions that are incorporated into this Agreement. In addition, the following definitions apply.
   **Agreement.** Agreement means the Coverdell Education Savings Account (ESA) Custodial Agreement (IRS Form 5305-EA), Application, Disclosure Statement, and accompanying documentation. The Agreement may be amended from time to time as provided in Article IX.
   **Application.** Application means the Coverdell ESA Application that is the legal document that establishes this Coverdell ESA after it is accepted by the Custodian by signing the Application. The information and statements contained in the Application are incorporated into this Coverdell ESA Agreement.
   **Authorized Agent.** Authorized Agent means the individual(s) appointed in writing by the Depositor or the Responsible Individual authorized to perform the duties and responsibilities set forth in the Agreement on behalf of the Designated Beneficiary.
   **Code.** Code means the Internal Revenue Code.
   **Custodial Account.** Custodial Account means the type of legal arrangement whereby the Custodian is a qualified financial institution that agrees to maintain the Custodial Account for the exclusive benefit of the Designated Beneficiary.
   **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.
   **Death Beneficiary.** Death Beneficiary means an individual or entity designated to receive the Custodial Account upon the death of the Designated Beneficiary.
   **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."
   **Regulations.** Regulations mean the U.S. Treasury Regulations.
   **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, or another party.
   **Special Needs Beneficiary.** The IRS will define special needs beneficiary. This Coverdell ESA will incorporate the definition by reference, once made available. However, a general definition may include individuals who require additional time to complete their education due to a physical, mental or emotional condition. Taxpayers who believe the Special Needs Beneficiary rules apply to their situation should consult a competent tax advisor for guidance.

2. **Responsibilities.** All information that the Depositor, Responsible Individual and Designated Beneficiary have provided or will provide to the Custodian under this Agreement is complete and accurate and the Custodian may rely upon it. The Depositor, Responsible Individual and Designated Beneficiary will comply with all legal requirements governing this Agreement and assume all responsibility for their actions including, but not limited to eligibility determination, contributions, distributions, penalty infractions, proper filing of tax returns and other issues related to activities regarding this Agreement. The Depositor, Responsible Individual and Designated Beneficiary will provide to the Custodian the information the Custodian believes appropriate to comply with the requirements of Section 326 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (U.S.A. PATRIOT) Act of 2001. The Depositor, Responsible Individual and Designated Beneficiary will pay the Custodian reasonable compensation for its services, as disclosed in the applicable fee schedules.

   If the Depositor is not the Responsible Individual, once the ESA is established and initial contributions, investment selections and beneficiaries are indicated; the rights and obligations of the ESA irrevocably become those of the Responsible Individual. Unless indicated otherwise, the Responsible Individual is responsible for executing all forms, certifications, tax filings and other documents associated with this ESA until the Designated Beneficiary reaches the age of majority under state law. The Custodian's acceptance of this ESA on behalf of a minor Designated Beneficiary is expressly conditioned on the Responsible Individual's acceptance of the duties, obligations and responsibilities associated with this ESA. The Responsible Individual may name a new Responsible Individual in a form and manner acceptable to the Custodian.

3. **Investment Responsibilities.** Initial investment decisions are the responsibility of the Depositor, and the Depositor is responsible to direct the Custodian in writing, or other acceptable form and manner authorized by the Custodian, regarding how all amounts are to be invested. Consistent with Article IV, the Responsible Individual may redirect the Custodian regarding the investment of contributions and earnings.


Copyright © 2021, Convergent Retirement Plan Solutions, LLC, Brainerd, MN 56401

Subject to the policies and practices of the Custodian, the Depositor (at the time the Custodial Account is established) or the Responsible Individual may delegate investment authority by appointing an Authorized Agent in writing in a form and manner acceptable to the Custodian. Upon receipt of instructions from the Depositor or the Responsible Individual and proof of acceptance by the Authorized Agent, the Custodian will accept investment direction and may fully rely on those instructions as if the Custodian had received the instructions from the Responsible Individual.

The Custodian will determine the investments available within the Custodial Account. These investments will be permissible investments under the applicable laws and Regulations. The Custodian may change its investment options from time to time and the Responsible Individual may move the monies in the Custodial Account to different investments. Any investment changes within the Custodial Account are subject to the terms and conditions of the investments, including but not limited to minimum deposit requirements and early redemption penalties.

The Custodian will not provide any investment direction, suitability recommendations, tax advice, or any other investment guidance. Further, the Custodian has no duty to question the investment directions provided by the Depositor or Responsible Individual or any issues relating to the management of the Custodial Account. The Depositor, Responsible Individual, and Designated Beneficiary will indemnify and hold the Custodian harmless from and against all costs and expenses (including attorney's fees) incurred by the Custodian in connection with any litigation regarding the investments within the Custodial Account where the Custodian is named as a necessary party.

The Custodian will promptly execute investment instructions received from the Depositor or Responsible Individual if the instructions are in a form and manner acceptable to the Custodian. If the Custodian determines the instructions from the Depositor or Responsible Individual are unclear or incomplete, the Custodian may request additional instructions. Until clear instructions are received, the Custodian reserves the right, in good faith, to leave the contribution uninvested, place the contribution in a holding account (e.g., a money market account), or return the contribution. The Custodian will not be liable for any investment losses due to such delays in receiving clear investment instructions. Further, the Depositor, Responsible Individual and Designated Beneficiary will indemnify and hold the Custodian harmless for any adverse consequences or losses incurred from the Custodian's actions or inactions relating to the investment directions received from the Depositor, Responsible Individual or Authorized Agent.

The Depositor and Responsible Individual will not engage in transactions not permitted under the Agreement, including, but not limited to, the investment in collectibles or life insurance contracts, or engage in a prohibited transaction under Code Section 4975.

4. **Beneficiary Designation.** Unless indicated otherwise on the Application, the Responsible Individual may change the Designated Beneficiary in a form and manner acceptable to the Custodian. The replacement Designated Beneficiary must be an eligible Family Member who has not yet reached age 30, unless the Designated Beneficiary is a Special Needs Beneficiary.

   The Depositor or Responsible Individual has the right to designate any person(s) or entity(ies) as primary and contingent Death Beneficiaries by completing a written designation in a form and manner acceptable to the Custodian filed with the Custodian during the Designated Beneficiary's lifetime. Unless otherwise indicated, all subsequent Death Beneficiary designations revoke all prior designations. Death Beneficiaries may be changed or revoked by the Responsible Individual at any time by executing a written designation on a form and manner acceptable to the Custodian.

   Unless indicated otherwise in a form and manner acceptable to the Custodian, upon the Designated Beneficiary's death, the Custodial Account will be paid to the surviving primary beneficiaries in equal shares. If no primary beneficiaries survive the Designated Beneficiary, the Custodial Account will be paid to surviving contingent beneficiaries in equal shares unless indicated otherwise. If no primary or contingent beneficiaries survive the Designated Beneficiary or if the Depositor or Responsible Individual fail to designate beneficiaries during the Designated Beneficiary's lifetime, the Custodial Account will be paid to the Designated Beneficiary's estate following the Designated Beneficiary 's death.

   Inherited Coverdell ESA assets rolled over or transferred to the ESA to of a surviving spouse or other eligible Family Member due to the Designated Beneficiary's death retains its status as a Coverdell ESA. This means the surviving spouse or other Family Member may treat the ESA as his or her own until he or she attains age 30. The age limitation does not apply to new Designated Beneficiaries who are Special Needs Beneficiaries. There are no tax consequences due to such a transfer.

   Upon the Designated Beneficiary's death, the Custodial Account will be distributed to non-Family Member Death Beneficiaries within 30 days of the Designated Beneficiary's date of death. ESA assets distributed including those that are not rolled over or transferred to another eligible Family Member are taxable to the extent the assets represent earnings distributed from the Custodial Account.

   No payment will be made to any Death Beneficiary until the Custodian receives appropriate evidence of the Designated Beneficiary's death as determined by the Custodian.

   If a non-Family Member Death Beneficiary is a minor, the Custodian is relieved of all its obligations as Custodian by paying the Custodial Account to the minor child upon receiving written instructions from the minor's parent or legal guardian.

   The Responsible Individual represents and warrants that all Death Beneficiary designations meet the applicable laws. The Custodian will exercise good faith in distributing the Custodial Account consistent with the Death Beneficiary designation. The Depositor, Responsible Individual and Designated Beneficiary agree to indemnify and hold the Custodian harmless against any and all claims, liabilities and expenses resulting from the Custodian's payment of the Custodial Account in accordance with such Death Beneficiary designation and the terms of the Agreement.

5. **Distributions.** Distributions may be requested from the Custodial Account by delivering a request to the Custodian in a form and manner acceptable to the Custodian. The Custodian is not obligated to distribute the Custodial Account unless it is satisfied it has received the required


Copyright © 2021, Convergent Retirement Plan Solutions, LLC, Brainerd, MN 56401

information to perform its administrative and legal reporting obligations. Required information includes, but is not limited to, taxpayer identification number, distribution reason, and proof of identity.

6. **Amendments and Termination.** The Custodian may amend this Agreement at any time to comply with legal and regulatory changes and to modify the Agreement as the Custodian determines advisable. Any such amendment will be sent to the Responsible Individual at the last known address on file with the Custodian. The amendment will be effective on the date specified in the notice to the Responsible Individual. At the Responsible Individual's discretion, the Responsible Individual may direct that the Custodial Account be transferred to another trustee or custodian. The Custodian will not be liable for any losses for any actions or inactions of any successor trustee or custodian.

   The Responsible Individual may terminate this Agreement at any time by providing a written notice of such termination to the Custodian in a form and manner acceptable to the Custodian. As of the date of the termination notice, the Custodian will no longer accept additional deposits under the Agreement. Upon receiving a termination notice, the Custodian will continue to hold the assets and act upon the provisions within the Agreement until the Responsible Individual provides additional instructions. If no instructions are provided by the Responsible Individual to the Custodian within 30 days of the termination notice, and unless the Custodian and the Responsible Individual agree in writing otherwise, the Custodian will distribute the Custodial Account, less any applicable fees or penalties, as a single payment to the Designated Beneficiary. The Custodian shall not be liable for any losses for any actions or inactions of any successor trustee or custodian.

   The Custodian may resign at any time by providing 30 days written notice to the Responsible Individual. Upon receiving such written notice, the Responsible Individual will appoint a successor trustee or custodian in writing. Upon such appointment and upon receiving acknowledgement from the successor trustee or custodian of acceptance of the Custodial Account, the Custodian shall transfer the Custodial Account, less any applicable fees or penalties, to the successor trustee or custodian. If no successor trustee or custodian is appointed and no distribution instructions are provided by the Responsible Individual, the Custodian may, in its own discretion, select a successor trustee or custodian and transfer the Custodial Account, less any applicable fees or penalties, or may distribute the Custodial Account, less any applicable fees or penalties, as a single payment to the Designated Beneficiary. The Custodian shall not be liable for any losses from any actions or inactions of any successor trustee or custodian.

   The Responsible Individual agrees to substitute another custodian or trustee in place of the existing Custodian upon notification by the Commissioner of the Internal Revenue Service or his or her delegate, that such substitution is required because the Custodian has failed to comply with the requirements of the Internal Revenue Code by not keeping such records or making such returns or rendering such statements as are required by the Internal Revenue Code, or otherwise.

7. **Instructions, Changes of Addresses and Notices.** The Responsible Individual is responsible to provide any instructions, notices or changes of address in writing to the Custodian. Such communications will be effective upon actual receipt by the Custodian unless otherwise indicated in writing by the Responsible Individual. Any notices required to be sent to the Depositor or Responsible Individual by the Custodian will be sent to the last address on file with the Custodian and are effective when mailed unless otherwise indicated by the Custodian. If authorized by the Custodian and provided by the Depositor or Responsible Individual in the Application, Custodial Account Agreement or other documentation deemed acceptable to the Custodian, an electronic address is an acceptable address to provide and receive such communications.

8. **Fees and Charges.** The Custodian reserves the right to charge fees for performing its duties and meeting its obligations under this Agreement. All fees, which are subject to change from time to time, will be disclosed on the Custodian's fee schedule or other disclosure document provided by the Custodian. The Custodian will provide the Responsible Individual 30 days written notice of any fee changes. The Custodian will collect all fees from the cash proceeds in the Custodial Account. If there is insufficient cash in the Custodial Account, the Custodian may liquidate investments, at its discretion, to satisfy fee obligations associated with the Agreement. Alternatively, if the Custodian so authorizes and if separate payment of fees or other expenses is permissible under applicable federal and/or state laws, the fees may be paid separately outside of the Custodial Account. If the Custodian offers investments other than depository products, the Depositor and Responsible Individual recognize that the Custodian may receive compensation from other parties. The Responsible Individual agrees to pay the Custodian a reasonable charge for distribution from, transfers from, and terminations of this Custodial Account. The Responsible Individual agrees to pay any expenses incurred by the Custodian in the performance of its duties in connection with this Agreement. Such expenses include, but are not limited to, administrative expenses, such as legal and accounting fees, and any taxes of any kind that may be levied or assessed with respect to such Custodial Account. The Responsible Individual shall be responsible for any deficiency. If for any reason the Custodian is not certain as to who is entitled to receive all or part of the Custodial Account, the Custodian reserves the right to withhold any payment from the Custodial Account, to request a court ruling to determine the disposition of the assets, and to charge the Custodial Account for any expenses incurred in obtaining such legal determination.

9. **Transfers and Rollovers.** The Custodian may accept transfers and rollovers to this Custodial Account from other Coverdell ESAs. The Responsible Individual represents and warrants that only eligible transfers and rollovers will be made to the Custodial Account. The Custodian reserves the right to refuse any transfer or rollover and is under no obligation to accept certain investments or property it cannot legally hold or determines is an ineligible investment in the Custodial Account.

   The Custodian will duly act on written instructions from the Responsible Individual received in a form and manner acceptable to the Custodian to transfer the Coverdell ESA to a successor trustee or custodian. The Custodian is not liable for any actions or inactions by any predecessor or successor trustee or custodian or for any investment losses resulting from the timing of or sale of assets resulting from the transfer or rollover.

10. **Miscellaneous.**

    **Reliance and Responsibilities.** The Depositor, Responsible Individual and Designated Beneficiary acknowledge that they are responsible for any taxes, penalties or other fees and expenses associated with his or her actions or inactions regarding the laws, regulations and rules associated with this Agreement. Further, the Depositor, Responsible Individual, and Designated Beneficiary acknowledge and understand that the


Copyright © 2021, Convergent Retirement Plan Solutions, LLC, Brainerd, MN 56401

Custodian will act solely as an agent and bears no fiduciary responsibility. The Custodian will rely on the information provided by the Depositor, Responsible Individual, and Designated Beneficiary and has no duty to question or independently verify or investigate any such information. The Depositor, Responsible Individual, and Designated Beneficiary will indemnify and hold the Custodian harmless from any liabilities, including claims, judgments, investment losses, and expenses (including attorney's fees), which may arise under this Agreement, except liability arising from gross negligence or willful misconduct of the Custodian.

**Custodian Acquired/Merged.** If the Custodian is purchased by or merged with another financial institution qualified to serve as a trustee or custodian, that institution will automatically become the trustee or custodian of this Coverdell ESA unless otherwise indicated.

**Maintenance of Records.** The Custodian will maintain adequate records and perform its reporting obligations required under the Agreement. The Custodian's sole duty to the Responsible Individual regarding reporting is to furnish the IRS mandated reports as required in Article VII of this Agreement. The Custodian may, at its discretion, furnish additional reports or information to the Responsible Individual. The Responsible Individual approves any report furnished by the Custodian unless, within 60 days of receiving the report, the Responsible Individual notifies the Custodian in writing of any discrepancies. Upon receipt of such notice, the Custodian's responsibility is to investigate the request and make any corrections or adjustments accordingly.

**Exclusive Benefit.** The Custodial Account is maintained for the exclusive benefit of the Designated Beneficiary and his or her Death Beneficiary(ies). Except as required by law, no creditors of the Depositor, Responsible Individual or Designated Beneficiary may at any time execute any lien, levy, assignment, attachment or garnishment on any of the assets in the Custodial Account.

**Minimum Value.** The Custodian reserves the right to establish Coverdell ESA account minimums. The Custodian may resign or charge additional fees if the minimums are not met.

**Other Providers.** At its discretion, the Custodian may appoint other service providers to fulfill certain obligations, including reporting responsibilities, and may compensate such service providers accordingly. The Custodian may release nonpublic personal information regarding your Custodial Account to such providers as necessary to provide the products and services made available under this Agreement.

**Agreement.** This Agreement and all amendments are subject to all state and federal laws. The laws of the Custodian's domicile will govern should any state law interpretations be necessary concerning this Agreement.

**Severability.** If any part of this Agreement is invalid or in conflict with applicable law or regulations, the remaining portions of the Agreement will remain valid.

## 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.

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

**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 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.


Copyright © 2021, Convergent Retirement Plan Solutions, LLC, Brainerd, MN 56401

# Coverdell Education Savings Account Disclosure Statement

(Used with Form 5305-EA)

A portion of the information contained in this Disclosure Statement is addressed in IRS Notice 97-60, IRS Publication 970, *Tax Benefits for Education*, and Internal Revenue Code Section 530. Its purpose is to generally summarize the terms, conditions and federal laws associated with Coverdell Education Savings Accounts (ESAs). It is not intended to replace the advice of your own tax and legal advisors. You are encouraged to consult your advisors and/or your state taxing authority concerning any tax and/or compliance questions. You are responsible for complying with the laws that apply to your ESA. Unless expressly prohibited by the Custodian's policies, such additional federally authorized transactions are hereby incorporated by this reference. The ESA Custodian does not act as your advisor.

**Definitions**

There may be multiple parties associated with an ESA. The parties are generally defined below and are referred to in this Disclosure Statement.

**Designated Beneficiary.** The Designated Beneficiary is the individual on whose behalf the ESA has been established, such as a child or student. Except for "special needs beneficiaries," contributions may not be made to an ESA after the Designated Beneficiary's 18th birthday. Note, depending on the circumstances and the Designated Beneficiary's age, the Designated Beneficiary may also serve in the capacities of Depositor and/or Responsible Individual.

**Depositor.** The Depositor establishes the ESA and may make the initial contribution. The Depositor may be a person or an entity. Note that the Depositor may also serve in the capacities of the Designated Beneficiary and the Responsible Individual.

**Responsible Individual.** The Responsible Individual is generally a parent or guardian of the Designated Beneficiary and essentially controls the decisions relating to the ESA, such as authorizing distributions, reviewing statements, directing investments, etc. Note that the Responsible Individual may also serve in the capacities of Depositor and Designated Beneficiary.

## GENERAL

**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 be established?**

A2. An ESA may be established for the benefit of any child under age 18. Contributions to the ESA will not be accepted after the Designated Beneficiary reaches his or her 18th birthday, unless he or she is a "special needs" Designated Beneficiary. An ESA established to receive a transfer or rollover may be established for the benefit of a Designated Beneficiary under age 30.

**Q3. What is a "special needs beneficiary?"**

A3. The IRS will define a special needs beneficiary. This Coverdell ESA will incorporate the definition by reference, once made available. However, a general definition may include individuals who require additional time to complete their education due to a physical, mental or emotional condition. Taxpayers who believe the special needs beneficiary rules apply to their situation should consult a competent tax advisor for guidance.

**Q4. Where may an individual open an ESA?**

A4. 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.

**Q5. How many ESAs may a Designated Beneficiary have?**

A5. There is no limit on the number of ESAs that may be established designating a particular individual as a Designated Beneficiary. However, in any given taxable year the total aggregate contributions to all the ESAs designating a particular individual as beneficiary may not exceed $2,000.

## CONTRIBUTIONS

**Q6. When may a taxpayer start contributing to an ESA?**

A6. Contributions may be made to a Designated Beneficiary's ESA from birth until his or her 18th birthday (unless the Designated Beneficiary is a special needs beneficiary).

**Q7. How much may be contributed to a Designated Beneficiary's ESA?**

A7. 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.

**Q8. What is the deadline for making ESA contributions?**

A8. Contributions must be made by the Designated Beneficiary's tax return due date excluding extensions. For most taxpayers, the deadline is April 15th. Contributions made between January 1 and April 15 should include an indication of the tax year the contribution is for. If the tax year is not indicated otherwise, the ESA Custodian will report it to the IRS as a current year contribution (the year received).

**Q9. What happens if more than $2,000 is contributed to an ESA on behalf of a Designated Beneficiary in a calendar year?**

A9. Aggregate contributions for the benefit of a particular Designated Beneficiary in excess of $2,000 for a calendar year are treated as excess contributions. If the excess contributions (and any earnings 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.

**Q10. May contributions other than cash be made to a Designated Beneficiary's ESA?**

A10. No. ESAs are permitted to accept contributions made in cash only.

**Q11. May contributors take a deduction for contributions made to an ESA?**

A11. No.


Copyright © 2021, Convergent Retirement Plan Solutions, LLC, Brainerd, MN 56401

**Q12. Are there any restrictions on who can contribute to an ESA?**

A12. Any individual or entity may contribute up to $2,000 to a Designated Beneficiary's ESA. For individuals to make an ESA contribution, his or her modified adjusted gross income (MAGI) for the taxable year may not be more than $110,000 ($220,000 for married taxpayers filing jointly). For purposes of this section, MAGI is determined as part of completing a Federal income tax return. For most taxpayers, MAGI is the same as adjusted gross income. For those few taxpayers who earn income abroad or receive income from certain American territories or possessions, MAGI will be greater than the 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 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 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 Designated Beneficiary is gradually reduced for individuals with MAGI between $95,000 and $110,000 (between $190,000 and $220,000 for married taxpayers filing jointly).

**Q13. Do contributors have to have compensation or earned income to make contributions to an ESA?**

A13. No.

**Q14. May a Designated Beneficiary contribute to his or her own ESA?**

A14. Yes.

**Q15. Does a taxpayer have to be related to the Designated Beneficiary in order to contribute to the Designated Beneficiary's ESA?**

A15. No.

**Q16. May contributions be made to both a qualified tuition program (QTP) and an ESA on behalf of the same Designated Beneficiary in the same taxable year?**

A16. Yes.

## DISTRIBUTIONS

**Q17. 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?**

A17. Yes. Whether the Designated Beneficiary is enrolled full-time, half-time, or less than half-time, he or she may take a tax-free withdrawal to pay qualified education expenses.

**Q18. What happens when a Designated Beneficiary withdraws assets from an ESA to pay for qualified education expenses?**

A18. 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 at an eligible educational institution.

**Q19. What is an eligible educational institution?**

A19. An eligible post-secondary educational institution is any college, university, vocational school, or other postsecondary educational institution that is described in section 481 of the Higher 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 (privately owned profit-making) postsecondary institutions. An eligible elementary or secondary school is any public, private, or religious school that provides kindergarten through grade 12 education as determined under state law.

**Q20. What are "qualified education expenses" for elementary and secondary schools?**

A20. Expenses are qualified that are related to enrollment or attendance such as tuition, books, supplies, equipment, academic tutoring, and special needs services for a special needs beneficiary. In addition, expenses also qualify that are provided by an eligible school in connection with attendance or enrollment such as room and board, uniforms, transportation, supplementary items and services (including extended day programs). Expenses related to the purchase of computer technology, equipment or Internet access qualify if the items are used by the Designated Beneficiary and his or her family during any of the years the Designated Beneficiary is in school. (This does not include expenses for computer software designed for sports, games, or hobbies unless the software is predominantly educational in nature.)

**Q21. What are "qualified education expenses" for post-secondary schools?**

A21. Expenses are qualified that are related to enrollment or attendance such as tuition and fees, books, supplies, equipment, and special needs services for a special needs beneficiary. In addition, expenses for room and board qualify provided the Designated Beneficiary is at least a half-time student. However, only room and board expenses qualify that do not exceed the greater of (1) the allowance for room and board, as determined by the eligible educational institution, that was included in the cost of attendance (for federal financial aid purposes) for a particular academic period and living arrangement of the student and (2) the actual amount charged if the student is residing in housing owned or operated by the eligible educational institution. Any contribution to a qualified tuition program (QTP) made on behalf of the Designated Beneficiary also is a qualified education expense. For tax years 2015 and later, qualified education expenses also include the purchase of computer or allowable peripheral equipment, certain computer software, and internet access and related services, if such equipment, software, or services are to be used primarily by the Designated Beneficiary during any of the years he/she is enrolled at an eligible educational institution.

**Q22. What is a "half time" student?**

A22. A Designated Beneficiary is a student enrolled "at least half-time" if he or she 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 school where the student is enrolled.

**Q23. What happens if a Designated Beneficiary withdraws an amount from an ESA but does not have any qualified education expenses to pay in the tax year in which he or she makes the withdrawal?**

A23. 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 portion subject to income taxes 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 tax penalty unless an exception applies. The most common exceptions are listed below. See IRS Publication 970 for additional exceptions.


Copyright © 2021, Convergent Retirement Plan Solutions, LLC, Brainerd, MN 56401

a. The withdrawal is paid to the estate of the Designated Beneficiary within 30 days of his or her death;
b. The withdrawal is paid to the Designated Beneficiary due to his or her disability; or
c. The withdrawal is equal to or less than the amount of a scholarship or other tax-free educational assistance received by the Designated Beneficiary.

**Q24. Is the distribution from an ESA taxable if the distribution is contributed to another ESA?**

A24. Any amount distributed from an ESA and rolled over or transferred to another ESA for the benefit of the same Designated Beneficiary or certain members of the Designated Beneficiary's family is not taxable. 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, children and their descendants, stepchildren and their descendants, siblings and their children, stepbrothers and stepsisters, parents and grandparents, stepparents, and spouses of all the foregoing. In addition, family members include first cousins, father-in-law, and mother-in-law. The $2,000 annual ESA contribution limit does not apply to these rollover contributions. For example, an older brother who has $2,000 left in his ESA after he graduates from college can roll over the full $2,000 balance to an ESA for his younger sister who is still in high school without paying any tax on the transfer. Only one Coverdell ESA rollover is allowed during the 12-month period ending on the date of the payment or distribution. This rule does not apply to the rollover of a military death gratuity or payment from Servicemembers' Group Life Insurance (SGLI).

**Q25. What happens to the assets remaining in an ESA after the Designated Beneficiary finishes his or her postsecondary education?**

A25. 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 penalty 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 or she makes the withdrawal. Alternatively, if the amount in the designated beneficiary's ESA is withdrawn and rolled over or transferred to another ESA for the benefit of a member of the Designated Beneficiary's family, the amount rolled over or transferred will not be taxable. No distributions are required until the Designated Beneficiary attains age 30. Please see Q & A 28 for more information.

**Q26. Rather than rolling or transferring the 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?**

A26. Yes, provided: (1) the terms of the particular trust or custodial account permit a change in the 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 and has not attained age 30.

**Q27. May the Designated Beneficiary or the Designated Beneficiary's parents claim the Hope Scholarship Credit or Lifetime Learning Credit for the Designated Beneficiary's expenses in a taxable year in which the Designated Beneficiary receives money from an ESA on a tax-free basis?**

A27. Yes, an education credit may be claimed in the same year the Designated Beneficiary takes a tax-free distribution from his or her ESA as long as the same expenses are not used for both benefits. Refer to IRS Publication 970 and/or your tax advisor for more guidance.

**Q28. When must assets in an ESA be distributed?**

A28. ESA assets must be distributed no later than 30 days after the Designated Beneficiary's death or attainment of age 30. (The age 30 rule does not apply to special needs beneficiaries.)

**Q29. Can the ESA be transferred to another individual when the Designated Beneficiary attains age 30?**

A29. Yes. The ESA may be rolled over or transferred to a new Designated Beneficiary (who is a qualified family member) when the current Designated Beneficiary attains age 30.

**Q30. Do any exceptions apply to the distribution requirement when the Designated Beneficiary dies?**

A30. Yes. If the Responsible Individual rolls over or transfers the ESA to an eligible family member named as Death Beneficiary, the ESA retains its status. This means the spouse or other family member may treat the ESA as his or her own until he or she attains age 30. The age limitation does not apply to new Designated Beneficiaries who are special needs beneficiaries. There are no tax consequences due to the transfer. If the ESA agreement allows the designation of a Death Beneficiary and that Death Beneficiary is not an eligible family member, the remaining assets must be distributed within 30 days of the Designated Beneficiary's date of death. ESA assets distributed (that are not rolled over or transferred to another eligible family member) are taxable to the extent they represent earnings distributed from the account.

## ADDITIONAL PROVISIONS

**Transfers.** ESAs may be moved from one trustee or custodian to an ESA maintained by another trustee or custodian by requesting a direct transfer. Federal law does not limit the number of transfers you may make during any year. ESA transfers are reportable to the IRS.

**Rollover of Military Death Gratuity or SGLI (Servicemembers' Group Life Insurance) Program.** Eligible death payments including military death gratuities and SGLI payments received by the Designated Beneficiary may be rolled over, tax-free into a Coverdell ESA. The amount eligible for rollover to a Coverdell ESA cannot exceed the total amount that you received reduced by any part of that amount that was contributed to a Roth IRA or another Coverdell ESA. Any military death gratuity or SGLI payment contributed to a Coverdell ESA is disregarded for purposes of the 12-month waiting period between rollovers. The rollover must be completed within one year of the date on which the payment is received. The amount contributed to the Coverdell ESA is treated as part of your cost basis (investment in the contract) in the Coverdell ESA that is not taxable when distributed. All or part of the amount received by the Designated Beneficiary may be rolled over to the Coverdell ESA.

**Prohibited Transactions.** The ESA may not be engaged in a "prohibited transaction." Prohibited transactions are defined in IRC Section 4975. Examples include borrowing money from the ESA, selling property to the ESA, receiving unreasonable compensation for managing the ESA or buying property with ESA funds for your personal use. Engaging in a prohibited transaction will most likely result in adverse tax consequences, including disqualification of the ESA.

**Using the ESA as Security for a Loan**. If the ESA is pledged as security for a loan, the amount pledged is treated as a distribution and is includable in income and may be subject to the 10 percent premature distribution penalty tax.


Copyright © 2021, Convergent Retirement Plan Solutions, LLC, Brainerd, MN 56401

## Miscellaneous

**Nonforfeitability.** Your interest in your ESA is nonforfeitable at all times.

**Investment Restrictions.** Money in the ESA may not be used to buy a life insurance policy or invested in collectibles as defined in IRC Section 408(m). However, certain gold, silver and platinum coins, bullion and coins issued under state laws are allowable investments.

**No Commingling.** Assets in the ESA may not be combined with other property, except in a common trust fund or common investment fund.

**Tax Filing.** Applicable IRS forms to report certain activities, taxable income and/or penalties associated with the ESA must be filed.

**IRS Form.** This ESA uses the precise language of IRS 5305-EA and is therefore treated as approved by the IRS. Additional language has been included as permitted by such form. The IRS approval represents a determination as to form and not to the merits of the account.


Copyright © 2021, Convergent Retirement Plan Solutions, LLC, Brainerd, MN 56401