



# COVERDELL EDUCATION SAVINGS ACCOUNT APPLICATION

Tracking Code. \_\_\_\_\_

Referral Code. \_\_\_\_\_

**MAILING ADDRESS**  
Horizon Trust Company  
P.O. Box 30007  
Albuquerque, New Mexico 87190

**FOR OVERNIGHT NIGHT MAIL ONLY:**  
Horizon Trust Company  
6301 Indian School Rd. NE, Suite 614  
Albuquerque, NM 87110

P: 888-205-6036 • F: 505-288-3905 • [Operations@Horizontrust.com](mailto:Operations@Horizontrust.com)

## PART 1. DESIGNATED BENEFICIARY

*The Individual for whom this account is being established*

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

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

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

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

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

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

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

## PART 3. DEPOSITOR

*The Individual establishing this account*

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

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

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

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

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

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

Phone: \_\_\_\_\_

## PART 5. SUCCESSOR RESPONSIBLE INDIVIDUAL

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

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

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

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

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

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

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

Phone: \_\_\_\_\_

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

Email: \_\_\_\_\_

## PART 2. COVERDELL ESA CUSTODIAN

*To be completed by the Coverdell ESA custodian*

Name: Horizon Trust Company

Regular Mail Address: P.O. Box 30007

City/State/ZIP: Albuquerque, NM 87190

Physical Address: 6301 Indian School Rd. NE, Suite 614

City/State/ZIP: Albuquerque, NM 87110

Fax: 505-288-3905

This is an amendment to an existing Coverdell ESA

## PART 4. RESPONSIBLE INDIVIDUAL

*The Individual responsible for managing this account*

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

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

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

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

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

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

Phone: \_\_\_\_\_

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

Email: \_\_\_\_\_

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

**Yes** Will the responsible individual continue to serve as the responsible individual for the custodial account after the designated beneficiary attains the age of majority under state law and until such time as all assets have been distributed from the custodial account and the custodial account terminates? (See Article V of the agreement for additional information.)

**No** If the responsible individual becomes incapacitated or dies after the designated beneficiary reaches the age of majority under state law, the responsible individual shall be the designated beneficiary.

**Yes** 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?

**No**

## PART 6. FEE PAYMENT OPTIONS

Deduct from Account  Check Enclosed  Charge Credit Card

I have read and understand the Self-Directed IRA Account Agreement regarding the credit card charge and I authorize the credit card payment by Horizon Trust Company for fees to establish the IRA account. Not limited to but including Activation Fee, Annual Fee and any special service fee.

Card Type  Master Card  Visa  Discover  American Express

Name on Card: \_\_\_\_\_

Card Number: \_\_\_\_\_

Billing Address For Card: \_\_\_\_\_

Expiration Date: \_\_\_\_\_

City/State/Zip: \_\_\_\_\_

Card Security Code (CSC): \_\_\_\_\_

Please choose a method for the subsequent annual fees:

Deduct from Account  Check Enclosed  Charge Credit Card

## PART 7. FUNDING INFORMATION

**FUNDING TYPE** (Select all that apply)

**1. Regular**

Contribution for Tax Year \_\_\_\_\_ Est. Amount \_\_\_\_\_

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

By selecting this transaction, I irrevocably designate this contribution as a rollover. Est. Amount \_\_\_\_\_

**3. Transfer** (Direct movement of assets from a Coverdell ESA into this Coverdell ESA) Est. Amount \_\_\_\_\_

## PART 8. DEATH BENEFICIARY DESIGNATION

I designate that upon my death, the assets in this account be paid to the beneficiaries named below. The interest of any beneficiary that predeceases me terminates completely, and the percentage share of any remaining beneficiaries will be increased on a pro rata basis. If no beneficiaries are named, my estate will be my beneficiary.

Treasury Reg 1.401(a)(9) defines an eligible trust as beneficiary as irrevocable or a revocable trust that it becomes reclassified as irrevocable upon death. If a revocable trust is listed as either a primary or contingent beneficiary, the account owner is responsible to ensure it meets the IRA requirements.

I elect not to designate beneficiaries at this time and understand that I may designate beneficiaries at a later date.

**PRIMARY DEATH BENEFICIARIES** (The total percentage designated must equal 100%)

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Address: \_\_\_\_\_

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

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

Date of Birth: \_\_\_\_\_ Relationship: \_\_\_\_\_

Date of Birth: \_\_\_\_\_ Relationship: \_\_\_\_\_

Tax ID (SSN/TIN): \_\_\_\_\_ Percent Designated: \_\_\_\_\_

Tax ID (SSN/TIN): \_\_\_\_\_ Percent Designated: \_\_\_\_\_

**CONTINGENT DEATH BENEFICIARIES** (The total percentage designated must equal 100%) (The balance in the account will be payable to these beneficiaries if all primary beneficiaries have predeceased the IRA owner.)

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Address: \_\_\_\_\_

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

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

Date of Birth: \_\_\_\_\_ Relationship: \_\_\_\_\_

Date of Birth: \_\_\_\_\_ Relationship: \_\_\_\_\_

Tax ID (SSN/TIN): \_\_\_\_\_ Percent Designated: \_\_\_\_\_

Tax ID (SSN/TIN): \_\_\_\_\_ Percent Designated: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Address: \_\_\_\_\_

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

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

Date of Birth: \_\_\_\_\_ Relationship: \_\_\_\_\_

Date of Birth: \_\_\_\_\_ Relationship: \_\_\_\_\_

Tax ID (SSN/TIN): \_\_\_\_\_ Percent Designated: \_\_\_\_\_

Tax ID (SSN/TIN): \_\_\_\_\_ Percent Designated: \_\_\_\_\_

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

## PART 9. SIGNATURES

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**Important:** Please read before signing.

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

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

The responsible individual assumes responsibility for

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

_____ Signature of Coverdell ESA Depositor	_____ Date (mm/dd/yyyy)
_____ Signature of Witness	_____ Date (mm/dd/yyyy)
_____ Signature of Coverdell ESA Responsible Individual	_____ Date (mm/dd/yyyy)
_____ Signature of Custodian	_____ Date (mm/dd/yyyy)

# INDIVIDUAL RETIREMENT CUSTODIAL ACCOUNT AGREEMENT

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

FORM (Rev. October 2010)

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

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

The depositor and the custodian make the following agreement:

## ARTICLE I

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

## ARTICLE II

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

## ARTICLE III

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

## ARTICLE IV

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

## ARTICLE V

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

## ARTICLE VI

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

## ARTICLE VII

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

## ARTICLE VIII

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

## ARTICLE IX

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

## SELF-DIRECTED ACCOUNT AGREEMENT

### 9.01 Representations and Responsibilities

By entering into this Self-Directed Account Agreement ("Agreement"), the undersigned ("Depositor" or "you") agrees to be bound by the terms and conditions contained herein with Horizon Trust Company ("HTC," "we," "us," or the "Custodian"), a New Mexico Corporation. All transactions shall be subject to any and all restrictions or limitation, direct or indirect, which are imposed by our 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 clearing house where the transactions are executed; or policies, procedures and practices; and this Agreement.

After the Depositor's death, the named beneficiary(ies) have the right to direct the investments, the decedent's Account assets, subject to the same conditions that applied to the original account holder during his/her lifetime under this Agreement. HTC shall invest and reinvest all contributions to the account and earnings thereon as directed by the Depositor (or at the direction of the beneficiary (ies) upon the Depositor's death) in investments that the Custodian determines it can operably administer control over.

The Depositor represents and warrants to us that any information the Depositor gives us or will give us with respect to this Agreement is complete and accurate. Further, the Depositor agrees that any directions given to us or action the Depositor takes will be proper under this Agreement and HTC is authorized to rely upon such information and/or directions. If HTC fails to receive direction from the Depositor regarding any transaction, or if we receive ambiguous directions regarding any transaction, or we, in good faith, believe that any transaction requested is in dispute, we reserve the right to take no action until further clarification acceptable to us is received from the Depositor, or the appropriate government or judicial authority.

HTC shall not be responsible for losses of any kind that may result from a Depositor's directions to us or actions or failure to act and the Depositor agrees to reimburse us for any loss we may incur as a result of such directions, actions or failures to act. HTC shall not be responsible for any penalties, taxes, judgments or expenses the Depositor may incur in connection with any account created hereunder this Agreement. HTC has no duty to determine, whether contributions or distributions comply with the Code, Regulations, Rulings or this Agreement.

By performing services under this Agreement, HTC is acting as an agent for the Depositor. The Depositor acknowledges and agrees that nothing in this Agreement shall be construed as conferring fiduciary status upon HTC. HTC shall not be required to perform any additional services unless specifically agreed to under the terms and provisions of this Agreement or as required under the Code and Regulations promulgated thereunder with respect to retirement accounts. We may employ third-party agents and others, whether affiliates or not, for the purpose of performing administrative or other custodial-related services with respect to your account for which we should otherwise have responsibility hereunder this Agreement, and the limitations imposed upon our duties to you under this Agreement or otherwise shall continue to apply to any third-party agent or other so employed by us.

You agree to indemnify and hold us 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. Furthermore, to the extent not prohibited by federal or state law, the Depositor agrees to indemnify, defend and agree to hold harmless HTC, its respective subsidiaries and affiliates, administrators, officers, directors, managers, members, representatives, agents, employees, successors and assigns from and against any and all claims, demands, liabilities, damages costs, expenses, attorney fees, payments and assessments arising in connection with the Depositor or the Account or which may result from any good faith actions, errors or omissions and from following or attempting to follow any directions of the Depositor or the beneficiary(ies), or an account designated representative. HTC shall not be responsible or liable in any way for the sufficiency, correctness, genuineness, validity, of the form or execution of any documents not prepared by HTC. The Depositor further agrees that the Custodian shall not be subject to margin calls or have any other obligation to extend credit or otherwise disburse payment beyond the cash balance of the Depositor's account for any reason whatsoever.

You agree to reimburse or advance to us, on demand, any and all legal fees, costs, fines, penalties and obligations incurred or to be incurred in connection with the defense, contest, prosecution or satisfaction of any claim made, threatened or asserted pertaining to any action you or your investment advisor directed through the Custodian, including, without limitation, claims asserted by you, and any state or federal regulatory authority or self-regulatory organization.

To the extent written instructions or notices are required under this Agreement; HTC may accept or provide such information in any other form permitted by the Code or applicable Regulations. Furthermore, you represent to HTC that any loss sustained in your Account will not affect your retirement income standard; and if a mandatory distribution arises, you will have the ability through your IRA and/or other retirement accounts to meet any mandatory distribution requirements.

## 9.02 Passive Custodian

HTC is a passive custodian and we do not provide investment advice. HTC does not provide legal or tax services or advice with respect to your account investments or the sale of such investments.

## 9.03 INVESTMENT CONFORMITY

The Depositor has exclusive responsibility for and control over the investment of the assets of the Account and acknowledges, understands and agrees that all investments shall conform to all applicable securities laws, rules and regulations. The Depositor represents to HTC that if any investment by his/her Account shall be deemed to be a "security" under applicable federal or state securities laws, such investment has been appropriately registered or is exempt from registration under applicable securities laws. The Depositor releases HTC and expressly waives any and all claims against us for our role in carrying out your instructions with respect to such investments.

Furthermore, the Depositor acknowledges that the foregoing representation is being relied upon by us in accepting your investment directions and you agree to indemnify us with respect to all costs, expenses, including, without limitation, attorney fees, fines, penalties, liabilities, damages, actions, judgments and claims arising out of such investment and/or breach of the foregoing representation, including without limitation, claims asserted by you, the Depositor.

HTC, as a passive custodian, will not bear or assume any responsibility to notify you, secure or maintain fire, casualty, liability or such other insurance coverage on any personal or real property asset(s) held by the Account or which serves as collateral under any mortgage or other security instrument held by the Depositor's account with respect to any promissory note or other evidence of indebtedness. It is incumbent upon the Depositor to arrange for such insurance as it may be determined necessary or appropriate to protect your investment.

Furthermore, HTC shall not be responsible for notifying the Depositor with reference to the payments of any insurance premiums, real estate taxes, utilities, or other charges or fees with respect to any investment held in the IRA, or Saving Account. Depositor must specifically direct HTC to pay any expense related to an asset from the Account in writing and a form deemed acceptable by us.

## 9.04 INVESTMENTS

In conformity with directions given to HTC, the Depositor directs HTC to deposit all cash, for which the Depositor has not elected to invest, into a pooled custodial deposit account or accounts with one or more third-party FDIC-insured financial institutions selected by HTC, qualifying under IRC 408(b)(5) or into any investment vehicle which is either FDIC-insured or guaranteed or backed by the full faith and credit of the United States government. The Depositor also authorizes entering into a sub-accounting agreement between the selected financial institution and HTC under which we will keep records of the Depositor's share of the pooled custodial accounts. Until such time as the Depositor gives instructions to HTC as to how such funds should be invested, Depositor hereby acknowledges that any interest accruing or monies not currently invested shall be disbursed to Depositor's account at predetermined annual percentage rate. Depositor acknowledges that such rate is not fixed and may be subject to fluctuation. Accrued interest in excess of the money distributed to the Depositor's Account shall be recognized by HTC as income. HTC shall be entitled to retain this income net of related service fees.

In accordance with instructions given to HTC by the Depositor, HTC shall invest and reinvest all contributions to the Account and earnings thereon as directed by the Depositor (or the direction of the beneficiary (ies) upon the Depositor's death) in investments that HTC determines it can operably administer, to include, without limitation, marketable securities traded on a recognized exchange or "over the counter" (excluding any securities issued by the Custodian), common trust funds or other common investment funds that qualify under Section 408(b)(5) of the Code including options & mutual funds (including, without limitation, qualifying pooled custodial accounts and pooled

custodial funds), mortgage notes, debentures, individually negotiated debt instruments, promissory notes, private equity investments in closely held businesses, certificates of deposit, real estate, real estate contracts, mortgages, leases, tax liens and tax anticipation warrants, deeds of trust, and other public, private or alternative investments that the Custodian determines it can operably administer, in such amounts as are specifically selected and specified by the Depositor in orders to the Custodian in such form as may be acceptable to HTC without any duty to diversify and without regard to whether such property is authorized by the laws of any jurisdiction as a trust investment or IRA investment or even if such investment will result in a prohibited transaction, unrelated business income tax ("UBIT") or a reportable transaction.

The Custodian may, but need not, establish programs under which cash deposits in excess of a minimum set by it will be periodically and automatically invested in interest-bearing investment funds.

The Custodian shall have no duty other than to follow the written investment directions of the Depositor, which duty shall be subject to the other terms and conditions of this Agreement. The Custodian shall be under no duty to question said instructions and shall not be liable for any investment losses or adverse tax consequences of any kind whatsoever sustained by the Depositor. In addition, the Custodian reserves the right to not follow a direction, or process any investment for administrative or cost-related reasons. Execution of Depositor's instructions or refusal to execute the same does not constitute investment advice or an opinion by the Custodian as to the investment's prudence or viability. Depositor agrees that the Custodian shall have no discretionary power, authority or control with respect to the management, investment or disposition of the Depositor's assets or any discretionary authority with regard to the management of the Depositor's account. Depositor agrees and acknowledges that HTC is not a fiduciary with respect to the Depositor, the Account or any investment chosen by the Depositor.

#### 9.05 DESIGNATED REPRESENTATIVES

HTC may, in its sole and absolute discretion, permit the Depositor to appoint an account designated representative or authorized investment advisor/agent to act on behalf of Depositor with respect to this Agreement (e.g., attorney-in-fact, executor, administrator, investment manager, investment advisor, etc.) who may, but is not required to be an investment advisor qualified under Section 3(38) of the Employee Retirement Income Security Act of 1974, to direct his/her retirement account. The Depositor shall notify HTC through written notice acceptable to us of any such account designated representatives to be appointed by the Depositor.

If the account designated representative is an investment advisor under Section 3(38) of the Employee Retirement Income Security Act of 1974, HTC requires the following: (I) Depositor to provide us a copy of the instruments appointing the investment advisor and evidencing the investment advisors acceptance of such appointment; (II) certificate evidencing the investment advisor's current registration under the Investment Advisor's Act of 1940; and, (III) an acknowledgement by the investment advisor that he/she is a fiduciary of the Account. HTC has no duty to determine the validity of any account designated representative authorized by the Depositor.

The account designated representative may give HTC directions to have us buy, sell or reinvest public securities and investments that are traded on a recognized exchange or "over the counter", excluding any securities which may be issued by HTC. The account designated representative may also direct HTC with respect to alternative and/or private investments. HTC shall be responsible only for the execution of such orders and for maintaining adequate records thereof. However, if any such orders are not received as required, or, if received, are unclear in the sole opinion of the Custodian, all or a portion of the account may be held in its current investments or remain un-invested without liability for loss of income or appreciation, and without liability for interest pending receipt of such orders or clarification as are acceptable to the Custodian in its sole discretion, or if a new contribution, the contribution may be returned.

HTC will follow the written instructions from the account designated representative until notification from the Depositor that he/she is terminating the representative's appointment.

HTC shall not be held responsible for losses of any kind that may result from directions, actions or failure to act by the account designated representative, and the Depositor agrees to reimburse HTC for any loss we may incur as a result of such directions, actions or failures to act by the account designated representative elected and authorized by the Depositor.

#### 9.06 PROHIBITED TRANSACTIONS

The Depositor agrees that certain transactions are prohibited in IRAs and Savings Plans under IRC Section 4975 of the Internal Revenue Code. The Depositor understands that the determination of a prohibited transaction depends on the facts and circumstances that surround any particular transaction. HTC shall make no determination as to whether any investment is prohibited. The Depositor further understands that should the Depositor's account engage in a prohibited transaction, you will incur a taxable distribution and possible penalties may be assessed. The Depositor represents to HTC that you have or will consult with your own tax or legal professional to ensure that all investments within the Depositor's account do not constitute a prohibited transaction and that all investments comply with all applicable federal and state laws, regulations and requirements. Furthermore, the Depositor shall not direct the Custodian to engage in or make any investment that Depositor knows or otherwise should know involves or facilitates any criminal activity, nor shall the Depositor direct the Custodian to lend any part of the corpus or income of the account to: pay any compensation for personal services rendered to the Account; to make any part of its services available on a preferential basis; to acquire for the account any property, other than cash; or, to sell any property to the Depositor, any member of Depositor's family deemed prohibited, or any entity controlled by Depositor through the ownership, directly or indirectly, of fifty percent (50%) or more of the total combined voting power of all classes of ownership entitled to vote, or of 50% or more of the total value of all ownership interests of such entity. Generally, if a Depositor engages in or directs the engagement in a prohibited transaction as described in Section 4975 of the Code, the Depositor's account stops being an IRA as of the first day of that year, and the account is treated as distributing all its assets to the Depositor or beneficiary at their fair market values on the first day of the year which may result in taxes and penalties. Depositor hereby agrees to be solely responsible for determining and avoiding prohibited transactions and reportable events.

#### 9.07 REPORTABLE TRANSACTIONS

The Depositor understands that certain transactions are or may be identified by the Internal Revenue Service as abusive tax shelter schemes or transactions. The Depositor further understands that the determination of a listed or reportable transaction may depend upon the facts and circumstances that surround the particular transaction. HTC will make no determination as to whether any Account investment constitutes a listed or reportable transaction. The Depositor agrees to consult with his/her own tax or legal professional to ensure that listed or reportable transactions engaged in by the Account are identified. The Depositor further represents and acknowledges to HTC that, with respect to any listed or reportable transaction, you are considered the entity manager which approved or caused the Account to be a party to the transaction and that you are responsible for (I) reporting each transaction to the IRS using Forms 8886-T and 8886, (II) paying any applicable excise taxes using Form 5330, (III) disclosing to HTC that such transaction was a prohibited tax shelter transaction, and, (IV) directing HTC of any necessary corrective action to be taken by the Account.

#### 9.08 UNRELATED BUSINESS INCOME TAX (UBIT)

Certain investments may generate taxable income within the Account, referred to as Unrelated Business Income Tax (UBIT). Such income must be considered in conjunction with all such income from all IRA accounts and may be taxable to the Account to the extent that all UBIT for a given taxable year exceeds the threshold amount set by the IRS.

Since the IRA is a tax-exempt organization under federal tax law, if the IRA earns income from an investment which utilizes debt-financing or which derived from a business regarded as not related to the exempt purpose of the IRA, it may be subject to UBIT, if it is excess of permitted deductions. Therefore, the Depositor must monitor for UBIT and in the event that your direction of IRA assets results in taxable income (unrelated or debt financing) pursuant to sections 511-514 of the Internal Revenue Code in excess of the \$1,000.00 exclusion (as that amount may be adjusted) for any taxable year, it shall be the responsibility of the Depositor to prepare, or have prepared at their sole expense, the proper 990-T tax form and forward it to HTC for execution on behalf of the Account, filing with the IRS and the payment of any applicable UBIT tax due from the IRA account. The authorization must be in written form acceptable to HTC. Furthermore, by signing this Agreement, the Depositor understands that the Custodian (I) does not make any determination as to what structures create UBIT; (II) does not monitor whether the Account has UBIT in the Account; and (III) does not prepare Form 990-T. Depositors required to complete a Form 990-T will need to contact HTC and request an Employer Identification Number (EIN). Or, the Depositor can acquire an EIN on its own by using Form SS-4 and providing a copy of the EIN confirmation to HTC.

### 9.09 FAIR MARKET VALUATIONS

HTC shall use reasonable, good faith efforts to ascertain the fair market value of each asset in valuing the assets of the custodial account for recordkeeping and reporting purposes. Valuations will be obtained through utilization of various outside sources available to us and consideration of various relevant factors generally recognize as appropriate to the application of customary valuation methods.

In certain cases where fair market value is not readily available and we do not have a recent qualified independent appraisal, we may assign value based on our internal policies and procedures on the value of the asset or we may require a current independent appraisal obtained by you, the Depositor. However, where assets are liquid or tier value cannot be readily determined on either an established exchange or generally recognized market, the valuation is, by necessity, not a true market value and is merely an estimation of value in a broad range of values and its accuracy should not be relied upon by the Depositor for any other purposes because the precision with which a value is assigned is a factor of the nature of the asset and the cost effectiveness of pursuing a more comprehensive appraisal.

HTC does not assume responsibility for the accuracy in the valuation presented regarding the assets. We do not guarantee the results of the appraisal methods applied in developing value nor can we be held liable for valuations that HTC cannot determine on a recognized exchange or a generally standard market.

Fair Market Valuations for conversions must be obtained from an independent authorized individual acceptable by HTC for conversions conducted either internally or via transfer from a contra firm. Documentation is required to be dated within 2 weeks of the distribution. Statements and prior market values are not acceptable.

### 9.10 DISCLOSURES AND VOTING

The Custodian shall supply to Depositor, all notices, prospectuses, financial statements, proxies and proxy soliciting materials received relating to assets held within the account. The Custodian shall not make decisions related to shares of stock or proceed with any other actions related to the asset without written instructions from Depositor.

### 9.11 ESTABLISHMENT, ANNUAL AND GENERAL FEE PROVISION

Individual Retirement Account custodians charge fees to maintain IRAs and/or to offset expenses. The Depositor agrees to pay any and all fees specified in the fee schedule published by HTC. This includes, without limitation, any Custodian fees and fees for distributions from, transfers to or from, terminations, and administrative expenses charged of this IRA. HTC reserves the right to assess additional fees on any account

with excessive activity or special services not covered by the current fee schedule.

Fees are required to be paid at the time the account is established. Thereafter, the Depositor will be billed for the annual fee which is calculated using the market value of the account on the anniversary date. Subsequent annual billing permits the fees to be paid out of pocket by the Depositor, via credit card on file with HTC (see relevant information below) or via automatic withdrawal from cash assets within the account. Should the Depositor desire to pay annual fees other than via credit card or automatic withdrawal, the Depositor should notify HTC of this desire a minimum of 30-days prior to the anniversary date of the account. HTC will prepare a paper billing statement, which may be subject to separate fees at the sole and absolute discretion of HTC, and mail the same to the Depositor. The Depositor will then have until the last business day of the anniversary month for such payment to be received by HTC. Should payment not be received by this date, HTC reserves the right to charge the applicable annual fee to a credit card on file or withdrawal the fee amount from cash assets within the account.

After 30 days should the fees go unpaid, HTC reserves the right to liquidate any asset, without notice, for the outstanding balance and the Depositor shall be responsible for any deficiency. Once the fee is deducted by the Custodian, the IRS Revenue Rulings do not allow a reimbursement of the fee. If an IRA owner should try to reimburse an IRA for a fee already deducted, the IRA custodian/trustee should report the transactions as a regular contribution to the IRA on IRS form 5498.

HTC relies on the ability to pay out-of-pocket guidance from Private Letter Rulings. IRS Revenue Ruling 84-146 and IRS Regulation 1.404(a)-3(d) provide the best guidance, indicating that an IRA owner can pay expenses out of pocket that is ordinary and necessary.

These expenses include: Annual Fee; Mutual fund sub-accounting fee; Establishment fee; Record-keeping fee; IRA termination fee; Investment adviser fee; Transaction fee; Transfer fee; Form preparation fee; Investment manager fee; Accounting services fee; and Service charge for additional investment types. In addition, HTC relies upon the IRS ruling in PLR200507021 and will allow the Depositor to choose to pay any wrap fees, as applicable, from non-IRA funds without such fee payments being considered to be additional contributions.

The Depositor can elect to pay the account set up fees when establishing an Account by providing HTC with a valid credit card number and related information. Depositor shall complete the credit card section of the "Application" form attached. Additionally, by providing a credit card, the Depositor hereby authorizes HTC to charge subsequent outstanding fees against the credit card account number should the Depositor fail to pay the applicable fees, expenses or other obligations when requested by HTC to do so and there are insufficient Custodial Funds which are liquid and/or which can be readily liquidated to pay any outstanding fee, expense or other obligation owed to HTC.

HTC reserves the right to require a valid credit card on file for successive outstanding annual fees. If the credit card account expires, becomes invalid or exceeds its maximum credit limit, the Depositor agrees to immediately inform the Custodian and simultaneously provide another valid credit card account number to HTC by completing a new "Custodial Account Information" form that allows HTC to charge outstanding fees against the new credit card account.

Institutional Account fees are set based on a specific company investment and any additional investments outside of the intended asset account will revert to a regular fee schedule assessed in the anniversary month.

Special fees or Optional Fees are deducted from the Account otherwise indicated on the form acceptable to HTC when submitted.

Provisions to pay special or optional fees must be made prior to the

processing of the transaction and cannot be paid once deducted as per IRS Regulation 1.404(a)-3(d).

Additionally, the account must maintain a liquid minimum account balance of \$500. Failure to maintain the minimum balance may result in the distribution of the account to the IRA which taxes and/or penalties could occur.

HTC may change the fee schedule at any time by giving the depositor 30 days prior written notice. HTC may, but shall not be required, to calculate fees by utilizing a basis point calculation. A basis point, also referred to as a "bip" is a unit of calculation equal to 1/100 of a percentage point or one part per ten thousand and is commonly used in interest rates, equity indexes and the yield of fixed-income investments.

## 9.12 STATEMENTS

HTC shall provide to the Depositor an annual statement. The Depositor will have sixty (60) days after receipt of any documents, statements or other information from HTC to notify us in writing of any errors or inaccuracies reflected in these documents, statements or other information. If the Depositor does not notify us within 60 days, the documents, statements or other information shall be deemed correct and accurate, and we shall have no further liability or obligation for such documents, statements, other information or the transactions described therein.

## 9.13 SUCCESSOR CUSTODIAN

HTC may reserve the right to resign and appoint a successor in the event our organization reorganizes, changes its name, merges with another organization or comes under the control of any federal or state agency. If HTC or any portion which includes the Depositor's Account is bought by another firm/organization, they shall automatically become the trustee or custodian of the Depositor's Account, but only if it is the type of organization authorized to provide trust services.

HTC may resign and appoint a successor custodian to serve under this Agreement or under another governing agreement selected by the successor by giving the Depositor written notice at least 30 days prior to the effective date of such resignation and appointment, which notice shall also include, or be provided under separate cover, a copy of such other governing instrument, if applicable, and the related disclosure statement. The Depositor shall then have 30 days from the date of such notice to either request a distribution of the entire account balance or designate a different successor and notify the Custodian of such designation. If the Depositor does not request distribution of the account balance or notify the Custodian of the designation of a different successor within such 30 day period, the Depositor shall be deemed to have consented to the appointment of the successor and the terms of any new governing instrument, and neither the Depositor nor the successor shall be required to execute any written document to complete the transfer of the account to the successor. The successor may rely on any information, including beneficiary designations, previously provided by the Depositor to the Custodian.

The Depositor may, at any time, remove the Custodian and name a successor custodian of the Depositor's choice by giving a 30 day notice of such removal and replacement. The Custodian shall then deliver the assets of the account as directed by the Depositor subject to applicable terms discussed in more detail below.

HTC may resign and demand that the Depositor appoint a successor custodian by giving the Depositor written notice at least 30 days prior to the effective date of such resignation. The Depositor shall then have 30 days from the date of such notice to designate a successor, notify the Custodian of the name and address of the successor, and provide the Custodian with appropriate evidence that such successor has accepted the appointment and is qualified to serve. If the Depositor designates a successor and provides HTC evidence of the successor's acceptance of appointment and qualification within such 30-day period, HTC shall then deliver all of the assets and necessary records to the successor. However, if the Depositor does not notify HTC of the appointment of a

successor within such 30 day period, then the Custodian may distribute all of the assets and necessary records to the Depositor outright from the Account and the Depositor shall be wholly responsible for the tax consequences of such distribution.

In any case listed above, HTC may expend any assets in the account to pay expenses of valuation and transfer (including but not limited to re-registering the assets and preparation of deeds, assignments, and other instruments of transfer or conveyance) to HTC, the successor trustee or custodian, or the Depositor, as the case may be. In addition, HTC may retain a portion of the assets as a reserve for payment of any anticipated remaining fees and expenses. Upon satisfaction of such fees and expenses, as determined by HTC, we shall pay over any remainder of the reserve to the successor trustee or custodian or to the Depositor, as the case may be.

## 9.14 RESTRICTIONS ON THE FUND

Neither you nor any beneficiary may sell, transfer, or pledge any interest in your Roth IRA in any manner whatsoever, except as provided by law or this agreement.

The assets in your Roth IRA will not be responsible for the debts, contracts, or torts of any person entitled to distributions under this agreement.

## 9.14 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 our domicile will govern.

If any part of this agreement is held to be illegal or invalid, the remaining parts will not be affected. Neither your nor our 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 your right or our 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” 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.

**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:  $[(\$220,000 \text{ minus } \$205,000) \text{ divided by } \$30,000]$  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:  $[(\$110,000 \text{ minus } \$98,000) \text{ divided by } \$15,000]$  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. The responsible individual may not have completed another rollover from the distributing Coverdell ESA during the 12 months preceding the date the distribution was received. Further, the responsible individual may roll the same dollars or assets only once every 12 months.
  - 2. Qualified Family Member. A Coverdell ESA may be rolled to another Coverdell ESA of the same designated beneficiary or to a Coverdell ESA maintained for the benefit of a qualified family member of the designated beneficiary, who is under the age of 30. The age 30 limitation does not apply to qualified family members who are special needs beneficiaries. Qualified family members of the designated beneficiary include the designated beneficiary's child, grandchild, or stepchild, brother, sister, stepbrother, or stepsister, nephew or niece, parents, stepparents, or grandparents, uncle or aunt, spouses of all the family members listed above, cousin, and designated beneficiary's spouse.
  - 3. Rollover of Military Death Benefits. If a designated beneficiary receives or has received a military death gratuity or a payment from the Servicemembers' Group Life Insurance (SGLI) program, the designated beneficiary may be able to roll over the proceeds to the Coverdell ESA. The rollover contribution amount is limited to the sum of the death benefits or SGLI payment received, less any such amount that was rolled over to a Roth IRA. Proceeds must be rolled over within one year of receipt of the gratuity or SGLI payment for deaths occurring on or after June 17, 2008. Any amount that is rolled over under this provision is considered nontaxable basis in the Coverdell ESA.

## LIMITATIONS AND RESTRICTIONS

- A. Gift Tax – Transfers of Coverdell ESA assets to a death designated beneficiary made during the designated beneficiary's life and at his or her request or because of the designated beneficiary's failure to instruct otherwise, may be subject to federal gift tax under IRC Sec. 2501.
- B. Prohibited Transactions – If the responsible individual engages in a prohibited transaction with the Coverdell ESA as described in IRC

Sec. 4975, the Coverdell ESA will lose its tax-deferred status and the designated beneficiary must include the value of the earnings in his or her account in his or her gross income for the year.

- C. Pledging – If the responsible individual pledges any portion of the Coverdell ESA as collateral for a loan, the amount so pledged will be treated as a distribution and may be included in the designated beneficiary's gross income for that year to the extent that it represents earnings.

## OTHER

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