

Education Savings Account Basics

Eligibility: Single taxpayers with adjusted gross income of up to \$95,000 or married couples filing jointly with adjusted gross income up to \$190,000 may contribute up to \$2,000 per beneficiary (generally a child under age 18) per year to an Education Savings Account. The age 18 restriction is eliminated in cases where a beneficiary has "special needs." Contributions for the tax year may be made by April 15 of the following year. The contribution amount is gradually reduced to zero for adjusted gross income levels between \$95,000 and \$110,000 for single taxpayers, and between \$190,000 and \$220,000 for married couples.

Deductibility: Contributions to an Education Savings Account are not deductible. Instead, earnings grow tax-deferred and are distributed tax free, provided they are used to pay the beneficiary's post-secondary education expenses.

Distributions: Distributions from an Education Savings Account are not included in gross income to the extent that the distribution does not exceed the qualified education expenses incurred by the beneficiary during the year in which the distribution is made. Qualified education expenses for which non-taxable withdrawals can be used include expenses for qualified elementary and secondary schools (grades K-12; public, private or religious), in addition to the expenses of higher education. Qualified education expenses include tutoring, room and board, uniforms, computers and extended day program costs.

The HOPE or Lifetime Learning credits are coordinated with the tax exclusion for Education Savings Account distributions, meaning both can be used in the same year, so long as the credit and the exclusion cover different expenses.

If total distributions exceed qualified higher education expenses during the tax year, a portion of the Education Savings Account earnings will be included in income and may be subject to a 10% penalty tax.

Important Note: The entire EGTRRA 2001 will automatically terminate, or "sunset," at the end of 2010 unless a future Congress extends its provisions. If the EGTRRA 2001 sunsets, prior tax rules will apply as if the EGTRRA 2001 had never become law.