

# Coverdell ESA Simplifier<sup>®</sup>

## Coverdell Education Savings Account Application

DESIGNATED BENEFICIARY'S NAME AND ADDRESS			COVERDELL ESA CUSTODIAN'S NAME, ADDRESS AND PHONE	
Social Security Number	Date of Birth	Home Phone	Coverdell ESA Account Identification	<input type="checkbox"/> Check here if this is an amendment to an existing Coverdell ESA.

Depositor's Name, Address and Phone	Depositor's Social Security Number	Contribution Date	Contribution Type
			<input type="checkbox"/> Annual
	Contribution Amount	Contribution For Tax Year	<input type="checkbox"/> Transfer
			<input type="checkbox"/> Rollover

### COVERDELL ESA RESPONSIBLE INDIVIDUAL A Responsible Individual must be designated below.

Responsible Individual's Name and Address	Home Phone	Business Phone	Social Security Number	Relationship to Designated Beneficiary

Answer "Yes" or "No" to each of the following questions by checking the appropriate box. If a box is not checked for a question, the answer will be deemed to be "No".

Yes  No 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.

Yes  No 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.

### SUCCESSOR COVERDELL ESA 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, I designate the following individual as the Responsible Individual. If no successor is named, the Successor Responsible Individual shall be the Designated Beneficiary's parent or guardian.

Successor Responsible Individual's Name and Address	Home Phone	Business Phone	Social Security Number	Relationship to Designated Beneficiary

### COVERDELL ESA DEATH BENEFICIARY

To name more than one primary death beneficiary or to name contingent death beneficiary(ies), a separate Coverdell ESA Designation of Beneficiary form must be used.

I designate the individual named below as the primary death beneficiary of 100 percent of this Coverdell ESA.

Death Beneficiary's Name and Address	Date of Birth	Social Security Number	Relationship to Designated Beneficiary

### SIGNATURES

*Important: Please read before signing. The signature of the Responsible Individual should be obtained if someone other than the Depositor will be the Responsible Individual.* I understand the eligibility requirements for the type of Coverdell ESA deposit I am making and I state that I do qualify to make the deposit. I have received a copy of the Application, the 5305-EA Plan Agreement and the Disclosure Statement. I understand that the terms and conditions which apply to this Coverdell ESA are contained in this Application and the Plan Agreement. I agree to be bound by those terms and conditions.

I assume complete responsibility for:

- Determining that I am eligible to contribute to a Coverdell ESA each year I make a contribution.
- Ensuring that all contributions I make are within the limits set forth by the tax laws.
- Certifying that I am qualified to assume the responsibilities of the Responsible Individual as set forth in the Plan Agreement, if I am designated on this Application as the Responsible Individual.
- Managing and administering the Coverdell ESA and authorizing transactions involving contributions (including rollover contributions) and distributions, if I am designated on this Application as the Responsible Individual.

\_\_\_\_\_  
(Coverdell ESA Depositor)

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Witness)

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Coverdell ESA Responsible Individual)

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Authorized Signature of Custodian)

\_\_\_\_\_  
(Date)

# COVERDELL ESA CUSTODIAL ACCOUNT

Form 5305-EA Under Section 530 of the Internal Revenue Code

FORM (REV. MARCH 2002)

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 10.04 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 the Custodian whose signatures appear on the Application.

## ARTICLE X

10.01 *Notices And Change Of Address:* Any required notice regarding this Coverdell ESA will be considered effective when the Custodian mails it to the last address of the intended recipient which the Custodian has in its records. Any notice to be given to the Custodian will be considered effective when the Custodian actually receives it. The Responsible Individual must notify the Custodian of any change of address.

10.02 *Representations And Responsibilities:* The Depositor and the Responsible Individual represent and warrant to the Custodian that any information the Depositor and Responsible Individual have given or will give the Custodian with respect to this agreement is complete and accurate. Further, the Depositor and the Responsible Individual agree that any directions they give the Custodian, or action they take will be proper under this agreement and that the Custodian is entitled to rely upon any such information or directions. The Custodian shall not be liable for acting upon any instructions given by the Responsible Individual named on the Application prior to the time the Custodian receives appropriate written notice that the Designated Beneficiary has met the requirements for assuming control of the Coverdell ESA, or that a new Responsible Individual has been appointed. The Custodian shall not be responsible for losses of any kind that may result from the Depositor's and Responsible Individual's directions to it or the Depositor's and Responsible Individual's actions or failures to act. The Depositor and Responsible Individual agree to reimburse the Custodian for any loss the Custodian may incur as a result of such directions, actions or failures to act. The Custodian has no duty to determine whether the contributions or distributions with respect to this Coverdell ESA comply with the Code, regulations, rulings or this agreement and shall not be responsible for any penalties, taxes, judgments or expenses of the Designated Beneficiary or any Depositor to this Coverdell ESA.

Notwithstanding anything in this agreement to the contrary, the Custodian may establish a policy permitting someone other than the Designated Beneficiary's parent or legal guardian to serve as Responsible Individual, provided the individual is not prohibited by law from serving in that capacity and fulfilling his or her obligations under this agreement.

10.03 *Service Fees:* The Custodian has the right to charge an annual service fee or other designated fees (for example, a transfer, rollover or termination fee) for maintaining this Coverdell ESA. In addition, the Custodian has the right to be reimbursed for all reasonable expenses incurred in connection with the administration of this Coverdell ESA. The Custodian may charge the Designated Beneficiary separately for any fees or expenses or may deduct the amount of the fees or expenses from the assets in this Coverdell ESA at the Custodian's discretion. The Custodian reserves the right to charge any additional fee upon 30 days notice to the Responsible Individual that the fee will be effective.

Any brokerage commissions attributable to the assets in the Coverdell ESA will be charged to the Coverdell ESA. The Responsible Individual, Depositor or Designated Beneficiary cannot reimburse the Coverdell ESA for those commissions.

10.04 *Beneficiary(ies):*

1. Unless indicated otherwise on the Application, the Responsible Individual may not change the Designated Beneficiary. If the Depositor has indicated on the Application that the Responsible Individual may change the beneficiary designated under this agreement and the Responsible Individual chooses to do so, the Responsible Individual must designate a member of the family (as defined in Section 529(e)(2)) of the existing Designated Beneficiary. This designation can only be made on a form prescribed by the Custodian.

2. The Depositor or Responsible Individual may name one or more person or entity as death beneficiary of this Coverdell ESA. This designation can only be made on a form prescribed by the Custodian and it will only be

effective when it is filed with the Custodian during the lifetime of the Designated Beneficiary. Each beneficiary designation filed with the Custodian will cancel all previous ones unless the beneficiary designation specifies otherwise. The consent of a death beneficiary shall not be required in order to revoke a death beneficiary designation. If a death beneficiary is not designated with respect to this Coverdell ESA, the Designated Beneficiary's estate will be the death beneficiary.

10.05 *Termination:* Either the Custodian or the Responsible Individual may terminate this agreement at any time by giving written notice to the other. The Custodian can resign as Custodian at any time effective 30 days after mailing written notice of its resignation to the Responsible Individual. Upon receipt of that notice, the Responsible Individual must make arrangements to transfer the Coverdell ESA to another financial organization. If the Responsible Individual does not complete a transfer of the Coverdell ESA within 30 days from the date the Custodian mails the notice to the Responsible Individual, the Custodian has the right to transfer the Coverdell ESA assets to a successor Coverdell ESA trustee or custodian that the Custodian chooses in its sole discretion or the Custodian may pay the Coverdell ESA balance to the Designated Beneficiary in a single sum. The Custodian shall not be liable for any actions or failures to act on the part of any successor trustee or custodian nor for any tax consequences the Designated Beneficiary may incur that result from the transfer or distribution of the Coverdell ESA assets pursuant to this section.

If this agreement is terminated, the Custodian may hold back from the Coverdell ESA a reasonable amount of money that it believes is necessary to cover any one or more of the following:

- any fees, expenses or taxes chargeable against the Coverdell ESA;
- any penalties associated with the early withdrawal of any savings instrument or other investment in the Coverdell ESA.

If the Custodian is merged with another organization (or comes under the control of any Federal or State agency) or if the entire organization (or any portion which includes the Coverdell ESA) is bought by another organization, that organization (or agency) shall automatically become the trustee or custodian of the Coverdell ESA, but only if it is the type of organization authorized to serve as a Coverdell ESA trustee or custodian.

If the Custodian is required to comply with Section 1.408-2(e) of the Treasury Regulations and fails to do so, or the Custodian is not keeping the records, making the returns or sending the statements as are required by forms or regulations, the IRS may, after notifying the Responsible Individual or the Designated Beneficiary, require that a substitute trustee or custodian be appointed.

10.06 *Amendments:* The Custodian shall have the right to amend this agreement at any time. Any amendment the Custodian makes to comply with the Code and related regulations does not require the consent of either the Responsible Individual or the Depositor. Notwithstanding anything in this agreement to the contrary, other amendments may be made with the consent of the Responsible Individual. The Responsible Individual will be deemed to have consented to any other amendment unless, within 30 days from the date the Custodian mails the amendment, the Responsible Individual notifies the Custodian in writing that the Responsible Individual does not consent.

10.07 *Transfers From Other Plans:* The Custodian can receive amounts transferred to the Coverdell ESA from the custodian or trustee of another Coverdell ESA.

10.08 *Liquidation Of Assets:* The Custodian has the right to liquidate assets in the Coverdell ESA if necessary to make distributions or to pay fees, expenses or taxes properly chargeable against the Coverdell ESA. If the Responsible Individual fails to direct the Custodian as to which assets to liquidate, the Custodian will decide in its complete and sole discretion and the Responsible Individual agrees not to hold the Custodian liable for any adverse consequences that result from the Custodian's decision.

10.09 *Restrictions On The Fund:* Neither the Responsible Individual, the Designated Beneficiary (nor anyone acting on behalf of the Designated Beneficiary), the Depositor nor any contributor may sell, transfer or pledge any interest in the Coverdell ESA in any manner whatsoever, except as provided by law or this agreement.

The assets in the Coverdell ESA shall not be responsible for the debts, contracts or torts of the Responsible Individual, the Designated Beneficiary, the Depositor or any person entitled to distributions under this agreement.

10.10 *What Law Applies:* This agreement is subject to all applicable Federal and State laws and regulations. If it is necessary to apply any State law to interpret and administer this agreement, the law of the Custodian's domicile shall govern.

If any part of this agreement is held to be illegal or invalid, the remaining parts shall not be affected. Neither the Responsible Individual's nor the Custodian's failure to enforce at any time or for any period of time any of the provisions of this agreement shall be construed as a waiver of such provisions, or the parties' right thereafter to enforce each and every such provision.

## 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.

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'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.

*Optional Provisions in Article V and Article VI:* Form 5305-EA may be reproduced in a manner that provides only those optional provisions offered by the Custodian.

# DISCLOSURE STATEMENT

## REQUIREMENTS OF A COVERDELL ESA

- A. **CASH CONTRIBUTIONS** – A Coverdell ESA contribution must be in cash.
- B. **MAXIMUM CONTRIBUTION** – The total amount that may be contributed to any and all Coverdell ESAs on behalf of a Designated Beneficiary is \$2,000 per year, excluding rollover and transfer contributions.

Contributions may not be made to a Coverdell ESA after the Designated Beneficiary's 18th birthday, except in the case of a special needs beneficiary.

The Coverdell ESA contribution that may be made by a Depositor is further limited if the Depositor's modified adjusted gross income (MAGI) exceeds \$190,000 and he or she is a married individual filing jointly (\$95,000 for single taxpayers). Married individuals filing jointly with MAGI exceeding \$220,000 may not fund a Coverdell ESA. Single individuals with MAGI exceeding \$110,000 may not fund a Coverdell ESA. The MAGI limits apply only to Depositors that are individuals.

If the Depositor is married filing jointly with MAGI between \$190,000 and \$220,000, the maximum Coverdell ESA contribution is determined as follows: (1) subtract the Depositor's MAGI from \$220,000, (2) divide the difference by \$30,000, and (3) multiply the result in step (2) by \$2,000. For example, if the Depositor's MAGI is \$205,000, the maximum Coverdell ESA contribution that may be made by such Depositor is \$1,000. This amount is determined as follows:  $[(\$220,000 \text{ minus } \$205,000) \text{ divided by } \$30,000] \text{ multiplied by } \$2,000$ .

If the Depositor is a single tax filer with MAGI between \$95,000 and \$110,000, the maximum Coverdell ESA contribution is determined as follows: (1) subtract the Depositor's MAGI from \$110,000, (2) divide the difference by \$15,000, and (3) multiply the result in step (2) by \$2,000. For example, if the Depositor's MAGI is \$98,000, the maximum Coverdell ESA contribution that may be made by such Depositor is \$1,600. This amount is determined as follows:  $[(\$110,000 \text{ minus } \$98,000) \text{ divided by } \$15,000] \text{ multiplied by } \$2,000$ .

The Coverdell ESA contribution that may be made by a Depositor is not limited by contributions made by the Depositor to Traditional or Roth IRAs. In addition, there is no earned income requirement to be eligible to contribute to a Coverdell ESA. There is no requirement that the Depositor be related to the Designated Beneficiary in order to make contributions. In addition, the Designated Beneficiary may contribute to his or her own Coverdell ESA.

- C. **ELIGIBLE CUSTODIANS** – The Custodian of the Coverdell ESA must be a bank, savings and loan association, credit union, or person 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 bullion coins and certain state-issued coins are permissible investments. Beginning January 1, 1998, 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 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 shall 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.

- 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 shall 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. **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.
- C. **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 which 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 tax. There are several exceptions to the 10 percent 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. **Hope or Lifetime Learning Credits** – A Designated Beneficiary may claim the Hope Credit or the 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 Hope Credit or Lifetime Learning Credit.
- D. **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. If you have any questions regarding a rollover, please see a competent tax advisor.

1. **Coverdell ESA to Coverdell ESA Rollovers** – Funds 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 a 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.
- E. **CARRYBACK CONTRIBUTIONS** – A contribution is deemed to have been made on the last day of the preceding taxable year if it is made by the deadline for filing the Depositor's income tax return (not including extensions), and the Depositor designates that contribution as a contribution for the preceding taxable year. For example, if the Depositor is a calendar year filer and makes a Coverdell ESA contribution on or before April 15, the contribution is considered to have been made for the previous tax year if the Depositor designates it as such.

#### LIMITATIONS AND RESTRICTIONS

- A. **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-exempt status and the Designated Beneficiary must generally include the value of the earnings in his or her account in his or her gross income for the year.
- B. **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.
- C. **ESTATE AND 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 if made after October 22, 1986.
- D. **INCOME TAX TREATMENT** – Any withdrawal from the Coverdell ESA is not subject to federal income tax withholding.

#### FEDERAL TAX PENALTIES

- A. **EXCESS CONTRIBUTION PENALTY** – An excise tax of 6 percent is imposed upon any excess contribution made to a Coverdell ESA. This tax will apply each year in which an excess remains in the Coverdell ESA. An excess contribution is any contribution amount which exceeds the contribution limit, excluding rollover and direct transfer amounts. The contribution limit is \$2,000 per Designated Beneficiary per year. The contribution limit may be further limited by the Depositor's MAGI as discussed previously. The excess contribution should be removed by the Responsible Individual and made payable to the Designated Beneficiary.
- B. **PENALTY REPORTING** – The Designated Beneficiary must file form 5329 with the Internal Revenue Service to report and remit any penalties for excise taxes.

#### 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** – You may obtain further information on Coverdell ESAs from your District Office of the IRS. In particular, you may wish to obtain IRS Publication 970, *Tax Benefits For Higher Education*, 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. What this means for you: When you open an account, you are required to provide your name, residential address, date of birth, and identification number. We may require other information that will allow us to identify you.



# IRA FEE SCHEDULE AND DISCLOSURE

Traditional, SEP, SIMPLE or Roth Accounts



Effective 6/1/2011

Service	Fee												
Setup Fee – Self Directed IRA	\$50												
Annual Account Fee with total asset value <sup>1</sup> of ≥ \$25,000	\$245												
Annual Account Fee with total asset value < \$25,000	\$150												
Precious Metals IRA Only Setup Fee	\$35												
Precious Metals IRA Only Annual Fee (Storage fees not included) <sup>2</sup>	\$150												
Transfer Funds Within IRA <sup>3</sup> (Can be included in 6 free life time transactions)	\$25												
Termination of IRA, Partial (Either a rollover to another plan or a lump sum distribution)	\$75												
Termination of IRA, Complete (Either a rollover to another plan or a lump sum distribution)	\$175												
Roth Conversion/Re-characterization <sup>4</sup> (For conversions done by AET)	\$75												
Roth Re-characterization for conversions done at different custodian <sup>5</sup>	\$125												
Contributions/Dividends/Payment, for each receipt exceeding 12 per year (12 per year are free) <sup>6</sup>	\$10												
Distribution / Withdrawal / Investments / Asset Acquisition / Miscellaneous (Can be included in 6 free life time transactions) <sup>7</sup>	\$35												
Distribution, Regular Retirement Stream, Each (Can be included in free, lifetime transactions)	\$25												
Quarterly paper account statements (\$8 per quarter or per request) <sup>8</sup>	\$32												
Mail forwarding <sup>9</sup> (charge for each piece of mail forwarded)	\$2												
Overnight Courier Delivery, Letter Envelope (plus actual shipping costs)	\$25												
Cashiers Check <sup>10</sup>	\$75												
Returned Check/Insufficient Funds	\$30												
Stop Payment	\$50												
Copy of sent or canceled checks	\$15												
Change of account type <sup>11</sup>	\$50												
Reversal of fees for alternate payment method <sup>12</sup>	\$50												
Re-producing tax documents <sup>13</sup>	\$10												
Document Research or Production	\$25												
Deposit Research <sup>14</sup>	\$25												
Rush Fee For 24 Hour Expedite Requests	\$ 75												
Hourly Rate For Extraordinary Services	\$150												
Wire Transfers – Outbound	\$15												
Wire Transfers – Inbound	\$15												
Document Review <sup>15</sup>	\$25 Min or \$150 per hour												
Storage Fees <sup>16</sup>													
Asset Value	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; width: 25%;"><u>Gold Only</u></td> <td style="text-align: center; width: 25%;"><u>Silver Only</u></td> <td style="text-align: center; width: 25%;"><u>Both Metals</u></td> <td style="text-align: center; width: 25%;"><u>Currency</u></td> </tr> <tr> <td style="text-align: center;">&lt; \$25,000</td> <td style="text-align: center;">\$8/Month</td> <td style="text-align: center;">\$10/Month</td> <td style="text-align: center;">\$8/Month</td> </tr> <tr> <td style="text-align: center;">≥ \$2 ,000</td> <td style="text-align: center;">\$12/Month</td> <td style="text-align: center;">\$18/Month</td> <td style="text-align: center;">\$8/Month</td> </tr> </table>	<u>Gold Only</u>	<u>Silver Only</u>	<u>Both Metals</u>	<u>Currency</u>	< \$25,000	\$8/Month	\$10/Month	\$8/Month	≥ \$2 ,000	\$12/Month	\$18/Month	\$8/Month
<u>Gold Only</u>	<u>Silver Only</u>	<u>Both Metals</u>	<u>Currency</u>										
< \$25,000	\$8/Month	\$10/Month	\$8/Month										
≥ \$2 ,000	\$12/Month	\$18/Month	\$8/Month										
Handling Fees For In Kind Distribution Of Metals or other assets <sup>17</sup>	\$75												
Liquidation of Metals <sup>18</sup>	\$50												

### Disclosures

**Minimum Required Balances For Fees.** Accounts must maintain a minimum cash balance of \$325. These balances need to be maintained to cover account fees that may be incurred. These account balances can be maintained inside the account or by providing a separate check or credit card to cover these fees. If providing separate payments for the minimum balance, your account will be credited outside of the other funds held in your account and not commingled or included with the funds inside of your account. We will require that you replenish the minimum account balance when the balance falls below the required minimum.

**Collection of Fees.** Annual account fees will be assessed on the anniversary month of when your account was opened. This will generally be billed on the first day of the month. If you have chosen to have the fees taken from your account, the fee will be assessed and taken from your account. If your account cash balance is insufficient to cover the fee, you will be billed for the shortfall. You will have 30 days from the invoice date to pay the account fees. If you choose to pay the annual account fee directly, you will receive an invoice for the annual fee. You will have 30 days from the invoice date to pay the fees.

Other account fees (e.g. transactions fees, shipping, postage, etc.) will be billed per your choice on the fee schedule (i.e. from account or billed to you directly). Fees from the account will be collected monthly. Fees billed are due 30 days from the invoice date.

**Third Party Fees.** All fees charged by any outside party for services to your account are charged to and paid by your IRA account or by you directly, and are in addition to any fees which AET charges. Third party fees could include: Brokerage, bank or mutual funds fees and loads, tax, storage fees, or other consultant fees, investment advisor fees, etc.

**Failure to pay fees.** We reserve the right to take fees from your account. We have the right to liquidate assets in your account to pay for fees. If fees are not paid, then your account will be distributed to you at the last known value. Such a distribution may be considered taxable and will be reported to the IRS as a distribution.

**Right To Change Fees.** We reserve the right to change fees with 30 days advance notice. Such notice will be posted on our website or be visible from your online account, or be sent via email, or other mail.

**Outside Fees.** American Estate & Trust, LC may in some cases receive compensation from third party suppliers, brokers, banks, mutual funds or other organizations, based on the volume of business placed with those organizations or due to other factors.

### Acknowledgment

**I hereby acknowledge receipt and notice of the above IRA Fee Schedule and disclosures. By signing below I agree to the fees and method of payment below.**

Please select the method of payment for your account (you must select one. If left blank, the "from my account" option will be the default)

Deduct fees from my account

I will pay the fees directly

Name: \_\_\_\_\_ Date: \_\_\_\_\_  
(Print Only)

Signature: \_\_\_\_\_

## End Notes For Fee Schedule

<sup>1</sup> Total asset value is comprised of the total of all cash and non-cash assets held in your account. If your account is greater than or equal to \$25,000 in total value, you will be charged the higher annual account fee listed on the schedule. If your account is less than \$25,000, you will be charged the smaller annual account fee on the schedule. If your account value increases from below \$25,000 to above \$25,000 as of the anniversary month for your account, you will be charged the higher fee.

<sup>2</sup> Accounts that hold precious metals only will be charged this annual account fee. If your account purchases other non-precious metals assets, then you may be subject to higher account fees per the fee schedule.

<sup>3</sup> A transaction will typically consist of writing checks, wiring funds, moving funds, or acquiring assets. Your account will come with 6 free transactions for the life of the account (i.e. your account can complete 6 total transactions without charge for those transactions). Once the 6 transactions are exceeded our normal transaction fees will apply. *NOTE: These transactions DO NOT reset each year or entitle you to 6 transactions per year. Writing a single check to acquire multiple assets will equal a transaction count equal to the number of assets acquired. Writing a single check to cover multiple transactions, fees, assets, etc. will be equal to the number of transactions tied to the single check.*

<sup>4</sup> Roth conversions done by AET will be charged this fee. If the Roth conversion needs to be re-characterized, and AET completed the initial conversion, then this fee will also apply to the re-characterization.

<sup>5</sup> Roth conversions done by a custodian other than AET and needing AET to complete a re-characterization will be subject to this re-characterization fee.

<sup>6</sup> The account will come with 12 free receipt transactions per year. A receipt transaction is generally a receipt of income from an investment (e.g. dividend, rent payment, loan payment, K-1/Partner distributions, etc.). Accounts that exceed the 12 transactions per year will be subject to this fee for each transaction above the 12. The transaction count will reset each year on the calendar year starting January 1.

<sup>7</sup> A transaction will typically consist of writing checks, wiring funds, moving funds, or acquiring assets. Your account will come with 6 free transactions for the life of the account (i.e. your account can complete 6 total transactions without charge for those transactions). Once the 6 transactions are exceeded our normal transaction fees will apply. *NOTE: These transactions DO NOT reset each year or entitle you to 6 transactions per year.*

<sup>8</sup> By default all accounts are setup for online access. Online access provides visibility to all transactions and assets held in the account. If you require paper statements, each statement is \$8. By selecting paper statements, you will receive at least 4 statements per year (once per quarter). This feature can be turned on and off by logging into your account. You will only be billed for statements actually sent.

<sup>9</sup> Any mail received by AET on behalf of your account will be charged this minimum fee. This fee generally covers standard mail, envelope and postage and handling. Additional fees may apply for mail that is larger or more expensive than standard mail. Additional fees may apply for multi-page documents which require scanning and special binding or packaging or registered mail.

<sup>10</sup> Cashiers checks are subject to a 48 hour turn around time. The 48 hour clock starts once we have received a complete and accurate direction of investment and all issues with the account and the transaction have been resolved. We reserve the right to not offer the cashier check if is not administratively feasible.

<sup>11</sup> If you setup your account as the wrong type (e.g. fill out forms as a Traditional IRA and it is actually a SEP IRA), we will assess this fee for changing the account over and re-filing any documents with state and federal agencies. This fee covers changing the account type, and transmittal of 5498s, 1099-Rs and any other state or federal documents that may be impacted by the change.

<sup>12</sup> If you choose to change the payment method for fees and those fees have already been collected from your account, you will be assessed this additional processing fee to return the funds to your account.

<sup>13</sup> If you request that tax documents be resent or if you provide information that alters the tax documents after they have been sent or filed, this fee will apply.

<sup>14</sup> In cases where we receive a deposit for your account and the deposit is not properly identified by the depositing party or institution, we will charge a fee for the time required to research and determine the origin of the funds and the correct account to credit the funds. In many cases parties that transmit funds will fail to clearly note the account to credit and such issues require that we engage various parties in order to determine the account to credit. In some cases we will be assessed a fee by the banking institution for conducting this research. In these cases we will assess the bank fee in addition to our fee listed on this schedule.

<sup>15</sup> Document review will generally consist of review of the documents representing the investment for your account or other related documents. Such documents can include, but is not limited to, real estate closing, private placements, partnership agreements, corporate stock, loans, tax liens, trust deeds. We will review documents submitted with an investment transaction and include that in the 6 free transactions. If we are requested to review documents prior to funding, or if we have to review the same documents multiple times in order to complete the investment transaction, then this fee will apply.

<sup>16</sup> These fees will be charged each month that metals are held in your IRA account based upon the current value of the metals held in your account. If a combination of metals (e.g. silver and gold) are held in the account, then you will be charged the "Both Metals" pricing for storage. Metals prices are established based upon current spot prices in the open market. All metals held are updated to reflect the current market prices. Storage fees are assessed based upon the total types and value of all metals held in the account on the first of the month. Storage fees will be collected from funds held in the account. If there is a shortfall in the account, you will be invoiced for the shortfall and you will be required to get those funds back into the account. If fees remain open for more than 90 days, we will liquidate enough metals to cover the costs of the open fees. Any metals purchased or sold after the monthly account fee has been assessed, will not change the storage fee for that month. Storage fees are not prorated or reduced in the month that metals are sold from the account. Currency held in your account will be billed in a similar manner.

<sup>17</sup> Requests to distribute metals from your account, in-kind (i.e. send you the metals), will be subject to a handling fee. Additional shipping and handling fees may be charged by the storage depository. Other in kind asset distributions are also subject to this same fee.

<sup>18</sup> Requests to liquidate metals will be subject to this fee. This fee will cover placing the order to the metals broker, purchasing the metals, and arrangement of the shipment of the metals to the metals broker.

## Proof of Identity

Name	_____		
	(last)	(First)	(MI)
SSN	____ - ____ - _____		

In order to comply with the Bank Secrecy Act and the Patriot Act, we require proof of identification before establishing your retirement account. Please provide any combination of the following forms of government issued identification and a photocopy of that identification:

Identification Form	Issuing Entity	ID #
<b>List 1: One of the following forms of picture ID is required</b>		
1. Drivers License		
2. Passport		
<b>List 2: One of the following form of ID must also be provided in addition to items from list 1</b>		
1. Birth Certificate		
2. Soc. Sec. Card		
3. Military ID		
4. Certificate of U.S. Citizenship (INS N-560 or N-561)		
5. Certificate of Naturalization (INS N-550 or N-570)		

I attest under the penalty of perjury that the information and identification that I have provided is true and accurate and that these identification documents were issued to me directly by the respective issuing entity.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date