## Application Booklet

# Coverdell Education Savings Account

**Equity Trust Company**

EQUITY TRUST COMPANY®

# Privacy Notice

| FACTS | WHAT DOES EQUITY TRUST COMPANY DO WITH YOUR PERSONAL INFORMATION? |
|---|---|
| **Why?** | Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do. |
| **What?** | The types of personal information we collect and share depend on the product or service you have with us. This information can include:<br>▪ Social Security number and account transactions<br>▪ Account balances and transaction history<br>▪ Assets and investment experience |
| **How?** | All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Equity Trust Company chooses to share; and whether you can limit this sharing. |

| Reasons we can share your personal information | Does Equity Trust Company share? | Can you limit this sharing? |
|---|---|---|
| **For our everyday business purposes—** such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus | **Yes** | **No** |
| **For our marketing purposes—** to offer our products and services to you | **Yes** | **No** |
| **For joint marketing with other financial companies** | **No** | **We don't share** |
| **For our affiliates' everyday business purposes—** information about your transactions and experiences | **Yes** | **No** |
| **For our affiliates' everyday business purposes—** information about your creditworthiness | **No** | **We don't share** |
| **For our affiliates to market to you** | **No** | **We don't share** |
| **For non-affiliates to market to you** | **No** | **We don't share** |

| Questions? | Call 800-209-9010 or go to www.equityinstitutional.com |
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| **Who we are** | |
| **Who is providing this notice?** | Equity Trust Company ("Equity Trust") |
| **What we do** | |
| **How does Equity Trust Company protect my personal information?** | To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings. |
| **How does Equity Trust Company collect my personal information?** | We collect your personal information, for example, when you:<br>■ Open an account or direct us to buy or sell securities<br>■ Make deposits or withdrawals from your account<br>■ Provide account information or give us your contact information<br>We also collect your personal information from others, such as credit bureaus, affiliates, or other companies. |
| **Why can't I limit all sharing?** | Federal law gives you the right to limit only:<br>■ sharing for affiliates' everyday business purposes—information about your creditworthiness<br>■ affiliates from using your information to market to you<br>■ sharing for non-affiliates to market to you<br>State laws and individual companies may give you additional rights to limit sharing. See below for more on your rights under state laws. |
| **Definitions** | |
| **Affiliates** | Companies related by common ownership or control. They can be financial and nonfinancial companies.<br>■ *Our affiliates include companies with an Equity or ETC or Innovayte name; financial companies, such as IPL Lending, LLC; nonfinancial companies, such as Retirement Education Group, Inc. d/b/a Equity University; and others, such as Midland IRA, LLC and UBIT Professional LLC.* |
| **Non-Affiliates** | Companies not related by common ownership or control. They can be financial and nonfinancial companies.<br>■ *Equity Trust Company does not share with non-affiliates so they can market to you.* |
| **Joint marketing** | A formal agreement between non-affiliated financial companies that together market financial products or services to you.<br>■ *Equity Trust Company does not jointly market.* |
| **Other Important Information** | **California Residents:** We will not share your personal information with nonaffiliates for their marketing purposes without your authorization. We will not share your personal information with affiliates or with other financial companies for joint marketing purposes.<br>**Vermont residents:** We will not share your personal information with nonaffiliates for their marketing purposes, or share consumer report information about you with affiliates, without your authorization. |

EQUITY INSTITUTIONAL®

# Important Information about the Coverdell Education Savings Account

A Coverdell education savings trust account (Coverdell account) is a trust that is created to help pay the qualified education expenses of the designated beneficiary of the account. The Coverdell account provides a unique savings vehicle where distributions of contributions and earnings are potentially tax free if used to pay for certain education expenses.

### *Parties Involved in the Account*

Several parties are involved in the account:

Trustee/Custodian - maintains the IRA on behalf of the designated beneficiary.

Grantor/Depositor - establishes the IRA for the benefit of a designated beneficiary. The grantor does not have to be a family member. The grantor can also be the Responsible Individual.

Designated Beneficiary - individual under age 18 who is named in the document and will receive the benefit of the funds in the account.

Responsible Individual - usually the parent or guardian of the designated beneficiary. In some cases, the designated beneficiary can become the Responsible Individual at the age of majority. The grantor can also be the Responsible Individual.

Contributor - The grantor is the initial contributor, but any eligible individual, including the designated beneficiary, can contribute to the account.

Death Designated Beneficiary - person or entity named to receive the assets upon the death of the designated beneficiary.

Replacement Designated Beneficiary - qualified family member who replaces the original designated beneficiary.

### *How Much Can Be Contributed?*

The most that can be contributed during a given year for a designated beneficiary is in the Disclosure, excluding rollovers from another Coverdell account. A designated beneficiary can have more than one account, but the total annual contribution to all accounts combined cannot exceed the amount set forth in the Disclosure. Contributions must be made by tax filing deadlines, not including extensions. Contributions must be made in cash and are not tax deductible.

### *Who Makes the Investments?*

The contributor usually chooses the initial investment for the account. Afterwards, the responsible individual has the power to change the initial investment and make decisions about investments for subsequent contributions.

### *Tax-Free Distributions*

Distributions from a Coverdell account are tax free if the distribution is used to pay for qualified education expenses at an eligible educational institution. Qualified education expenses include tuition, fees, books, supplies, equipment, academic tutoring, special needs services, uniforms, transportation, educational computer technology including internet access, and room and board in certain situations (the student must be enrolled at least as a half-time student at an eligible educational institution). The designated beneficiary must report the amount of the distribution on Form 1040.

### *Excess Contributions*

In the event of an excess contribution, the excess must be returned to the designated beneficiary. The excess contribution must be withdrawn by the first day of the sixth month following the taxable year (May 31), or it will be subject to a six percent excise tax. The excise tax will be imposed for each year the excess contribution remains in the account.

### *Definitions*

This booklet is informational only and should not be construed as providing individual tax or legal advice. For more information, consult IRS Pub. 970 (available at http://www.irs.gov/pub/irs-pdf/p970.pdf). Please consult your own tax advisor or attorney regarding your individual situation.

# Important Information about the Coverdell Education Savings Account

### *Consult With Your Attorney*

Carefully read the enclosed information. Please consult with your attorney or tax advisor if you are thinking about starting your own trust.

**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 Equity Trust Company to obtain, verify, and record information that identifies each person who opens an account.

What this means for you: When you open an account, your broker will ask for your name, address, date of birth, and other information that will allow them to identify you. They may also ask to see your driver's license or other identifying documents.

### *Trust Installation and Notice*

Individual accounts will be opened by your broker. The title of the account will be as follows:

Equity Trust Company, Trustee
FBO (Name of Designated Beneficiary), Coverdell Education Savings Account (CESA)

**Account Executive Note:**

Duplicate statements should be sent to:

Equity Trust Company
Attn: DTS
P. O. Box 45274
Westlake, OH 44145

**(Note:** Our Federal Tax ID number should appear when opening cash accounts. It is 05-0552743. When a cash account is opened, both Trustee and Designated Beneficiary must receive a statement).

### *Investments*

It is the responsibility of the Responsible Individual to direct the investment of the Trust funds. Investment directions may be given directly to your brokerage firm. Investment confirmations will be sent to you by your broker. Any transactions not generating a confirmation must be accompanied by additional written instructions.

The facilities of your brokerage firm will be available to you so that you may obtain research material in connection with your investments. Your brokerage firm will receive only brokerage commissions or appropriate dealer markups for the purchase and sale of securities within your account.

The brokerage firm cannot exercise discretion or control over your account, unless you are using the services of a registered investment advisor. Although they may provide investment information and advice to you, they do not intend that any advice given by them will serve as the primary basis for your investment decisions. Furthermore, it is our understanding that you will exercise independent judgment in making investment decisions.

### *Contributions*

**Important:** Forward all contributions to your broker. Contributions will be reported for the tax year for which the contribution is made. All rollovers must be made in the form of cash.

**Note:** With the exception of rollovers, contributions in excess of the allowable amount per year cannot be accepted. Do not over-contribute as this will cause a debit balance and may disqualify the Coverdell ESA. Commissions are part of the cost of the investment and may not be paid separately.

### *Mailing Instructions*

If sent First Class, address to:

Equity Trust Company
Attn: DTS
P. 0. Box 45274
Westlake, OH 44145

If sent by a courier service, address to:

Equity Trust Company
Attn: DTS
1 EquityWay
Westlake, OH 44145

Form **5305-E**

(Rev. October 2016)
Department of the Treasury
Internal Revenue Service

# Coverdell Education Savings Trust Account Agreement

**(under section 530 of the Internal Revenue Code)**

**Do not** file with the Internal Revenue Service

Name of grantor

Check if amendment . . . ▶ ☐

Name of designated beneficiary

| Address of designated beneficiary | Date of birth of designated beneficiary |
|---|---|
| | |

Name of responsible individual (generally the parent or guardian of the designated beneficiary)

Address of responsible individual

| Name of trustee | Address or principal place of business of trustee |
|---|---|
| | |

The grantor named above is establishing a Coverdell education savings trust account under section 530 for the benefit of the designated beneficiary exclusively to pay for the qualified elementary, secondary, and higher education expenses, within the meaning of section 530(b)(2), of such designated beneficiary.

The grantor has assigned the trust ______________________ dollars ($ __________) in cash.

The grantor and the trustee make the following agreement:

## Article I

The trustee 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 trust account funds may be invested in life insurance contracts, nor may the assets of the trust 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 grantor shall have the power to direct the trustee regarding the investment of the above-listed amount assigned to the trust (including earnings thereon) in the investment choices offered by the trustee. The responsible individual, however, shall have the power to redirect the trustee regarding the investment of such amounts, as well as the power to direct the trustee regarding the investment of all additional contributions (including earnings thereon) to the trust. In the event that the responsible individual does not direct the trustee regarding the investment of additional contributions (including earnings thereon), the initial investment direction of the grantor also will govern all additional contributions made to the trust account until such time as the responsible individual otherwise directs the trustee. Unless otherwise provided in this agreement, the responsible individual also shall have the power to direct the trustee regarding the administration, management, and distribution of the account.

## Article V

The "responsible individual" named by the grantor shall be a parent or guardian of the designated beneficiary. The trust 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 below, at the time that the designated beneficiary attains the age of majority under state law, the designated beneficiary becomes the responsible individual. If a family member under the age of majority under state law becomes the designated beneficiary by reason of being a named death beneficiary, the responsible individual shall be such designated beneficiary's parent or guardian.

☐ **Option** (*This provision is effective only if checked*): The responsible individual shall continue to serve as the responsible individual for the trust after the designated beneficiary attains the age of majority under state law and until such time as all assets have been distributed from the trust and the trust terminates. If the responsible individual becomes incapacitated or dies after the designated beneficiary reaches the age of majority under state law, the responsible individual shall be the designated beneficiary.

## Article VI

The responsible individual ☐ may or ☐ **may not** 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 trustee's procedures.

## Article VII

**1.** The grantor agrees to provide the trustee with all information necessary to prepare any reports required by section 530(h).

**2.** The trustee 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 grantor and trustee whose signatures appear below.

## Article X

10.01 **Amendments** - Each grantor who adopts this trust delegates to the trustee the power to amend this trust from time to time in any respect without obtaining the consent or approval of the grantor, responsible individual or designated beneficiary. Any amendments will be provided to the grantor or responsible individual. Each grantor or responsible individual shall be deemed to have consented to any and all such amendments.

In addition, the trustee may amend the fee schedule from time to time with advance notice to the responsible individual (or designated beneficiary).

10.02 **Restrictions** - Neither the grantor or responsible individual (or designated beneficiary) nor the trustee shall have the right to amend or terminate this trust in such a manner as would cause or permit all or part of the trust account to be diverted for purposes other than the exclusive benefit of the designated beneficiary. No grantor, responsible individual or designated beneficiary shall have the right to sell, assign, discount, or pledge as collateral for a loan any asset of this trust.

Notwithstanding anything to the contrary contained in this agreement or in any amendment thereto, no part of the trust other than such part as is required to pay the trustee's compensation, taxes, and administration expenses, shall be used for, or diverted to, purposes other than for the exclusive benefit of the designated beneficiary. The trust account is established for the exclusive benefit of the designated beneficiary.

10.03 **Termination, Resignation and Revocation** – The trustee or responsible individual shall have the right to terminate this trust at any time by giving written notice to the other. The trustee can resign as trustee at any time effective 30 days after giving written notice to the responsible individual. Upon removal of the trustee by the responsible individual, the responsible individual shall appoint a successor trustee or custodian that shall have the same powers and duties as are conferred upon the trustee hereunder and in default thereof, such successor trustee or custodian may be appointed by a court of competent jurisdiction.

In the event of resignation of the trustee, if the responsible individual fails to appoint a successor trustee or custodian and complete the transfer of assets within 30 days of the date the trustee mails such termination notice to the last address on file for the responsible individual or the responsible individual mails such notice to the trustee, the trustee may in its discretion, transfer the assets to a successor trustee or custodian of its choosing or to a successor trustee or custodian as may be appointed by a court of competent jurisdiction, or liquidate and/or distribute the assets, less any amounts withheld for trustee compensation, taxes, and expenses, to the responsible individual. The trustee will not be responsible for any penalties, fines, taxes, or tax consequences that may result from such distribution or transfer.

The grantor or responsible individual shall be permitted to revoke this trust in writing within a period not to exceed seven (7) days after the date that the grantor adopted this trust. In the event of such revocation, the trustee will return the entire account plus any trustee compensation, taxes and expenses as soon as practical.

10.04 **Successor Trustee** - Upon the delivery by the resigning or removed trustee to its successor trustee or custodian of all property of the trust, less such reasonable amount as it shall deem necessary to provide for its compensation and any taxes and expenses or advances chargeable or payable out of the trust, the successor trustee or custodian shall thereupon have the same powers and duties as are conferred upon the trustee.

No successor trustee or custodian shall have any obligation or liability with respect to the acts or omissions of its predecessors. The actual appointment and qualification of a successor trustee or custodian to whom the trust assets may be transferred are conditions which must be fulfilled before the resignation or removal of the trustee shall become effective. The transfer of the trust assets shall be made coincidentally with an accounting by the resigned or removed trustee and such resigned or removed trustee shall endorse, transfer, convey and deliver to the successor trustee or custodian all of the funds, securities or other property then held by it under the trust, together with such records as may be reasonably required in order that the successor trustee or custodian may properly administer the trust.

10.05 **Trustee Rights** - If the trustee receives any claim to assets held in the trust which is adverse to the interest of the designated beneficiary, and the trustee, in its absolute discretion, decides the claim is, or may be, meritorious, the trustee may withhold distribution until the claim is resolved to its trustee shall be entitled to reimbursement of all costs, fees and expenses, including reasonable attorney's fees, directly from the trust assets, without the approval or direction of the responsible individual. If necessary, the trustee may liquidate trust assets in order to be reimbursed. As an alternative, the trustee may deposit all or any portion of the assets in the trust into the court. Deposit with the court shall relieve the trustee of any further obligation with respect to the assets deposited. The trustee has the right to be reimbursed from the funds deposited with the court for legal fees and costs incurred. Such reimbursement may be made directly from the trust assets without approval or direction of the responsible individual. If necessary, the trustee may liquidate trust assets in order to be reimbursed as stated above.

To the extent the trustee is engaged in any form of litigation, arbitration, or dispute resolution concerning the trust assets or the interest of the trust, the trustee shall be entitled to recover all costs, fees and expenses, including reasonable attorney's fees, directly from the trust assets.

10.06 **Miscellaneous** - The trustee shall not be liable for any act or omission made in connection with the trust except for its intentional misconduct or negligence. Any required notice regarding the trust will be considered effective when the trustee mails it to the last address of the intended recipient which is contained in the trustee's records. Any notice to be given to the trustee will be considered effective when the trustee actually receives it. The responsible individual and/or designated beneficiary must notify the trustee of any change of address in a manner acceptable to the trustee.

The terms and conditions of this agreement shall be applicable without regard to the community property laws of any state.

The captions of Articles and Sections in this agreement are included for convenience only and shall not be considered a part of, or an aid to, the construction of this trust.

| | | | |
|---|---|---|---|
| Grantor's signature | | Date | |
| Trustee's signature | | Date | |
| Witness' signature | | Date | |

(Use only if signature of the grantor or the trustee is required to be witnessed.)

## 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-E is a model trust 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 grantor and the trustee. 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 custodial account, see **Form 5305-EA,** Coverdell Education Savings Custodial Account.

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

### Definitions

**Trustee.** The trustee 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 trustee. Any person who may serve as a trustee of a traditional IRA may serve as the trustee of a Coverdell ESA.

**Grantor.** The grantor is the person who establishes the trust account.

**Designated beneficiary.** The designated beneficiary is the individual on whose behalf the trust 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 grantor and designated beneficiary's social security numbers will serve as their identification numbers. If the grantor is a nonresident alien and does not have an identification number, write "Foreign" on the return for which is filed to report the grantor's information. The designated beneficiary's social security number is the identification number of his or her Coverdell ESA. If the designated beneficiary is a nonresident alien; the designated beneficiary's individual taxpayer identification number is the identification number of his or her Coverdell ESA. An employer identification number (EIN) is required only for a Coverdell ESA for which a return is filed to report unrelated business income. An EIN is required for a common fund created for Coverdell ESAs.

## Specific Instructions

**Note:** *The age limitation restricting contributions, distributions, rollover contributions, and change of beneficiary are waived for a designated beneficiary with special needs.*

**Article X.** Article X and any that follow may incorporate additional provisions that are agreed to by the grantor and trustee 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 trustee, trustee's fees, state law requirements, treatment of excess contributions, and prohibited transactions with the grantor, designated beneficiary, or responsible individual, etc. Attach additional pages as necessary.

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

# Coverdell Education Savings Account Disclosure Statement

EQUITY TRUST COMPANY®

This Disclosure Statement sets forth general terms, conditions and requirements related to your Coverdell Education Savings Account ("CESA"), including some of the requirements under IRS Form 5305-EA. This Disclosure Statement is not to be construed as giving or replacing tax or legal advice. Please consult with a tax professional concerning any tax questions related to your CESA with us.

## GENERAL INFORMATION

Generally, a Coverdell Education Savings Account ("CESA") is a custodial account that is afforded certain tax benefits, such as earnings on the growth of assets held in your CESA are not subject to federal income tax and withdrawals from the account are excluded from income for federal income tax purposes. However, the earnings must be used for qualifying higher education expenses or for qualified elementary and secondary education expenses as defined within Section 530 of the Internal Revenue Code.

## REQUIREMENTS OF A COVERDELL ESA

A. A CESA may be established for the benefit of any child under the age of 18 ("Designated Beneficiary"), with the exception of a special needs beneficiary. The Account is controlled by a Responsible Individual (typically a parent or legal guardian of the Designated Beneficiary). The Depositor may or may not be the Responsible Individual and may designate the initial investment in the Account and can make additional contributions, subject to the IRS limitations. However, the Depositor has no other rights, interests or obligations related to the CESA.

B. **Eligible Custodians** – The custodian of your CESA must be a bank, savings and loan association, credit union, or person or entity approved by the IRS.

C. **Commingling Assets** – The assets of your CESA cannot be commingled with other property except in a common trust fund or common investment fund.

D. **Life Insurance** – None of your assets in your CESA may be invested in life insurance.

E. **Collectibles** – The assets of your CESA may not be invested in collectibles, as defined by IRC Section 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. 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 investments in a CESA.

## REQUIREMENTS OF A COVERDELL ESA

A. **Cash Contributions** – A CESA contribution must be in cash.

B. **Maximum Contribution** – The maximum amount that can be contributed to a CESA is $2,000 per year, excluding rollover and transfer contributions. With the exception of a special needs child, contributions can only be made for the benefit of a Designated Beneficiary under 18 years of age.

However, there are limitations on contributions. For example, if the Depositor's modified adjusted gross income exceeds $95,000 (or $190,000 for married taxpayers filing jointly), the allowable contribution is reduced. Please see Section 530 of the IRC for further information. In addition, taxpayers with modified adjusted gross incomes above $110,000 ($220,000 for married taxpayers filing jointly) cannot make contributions to anyone's CESA. The Modified Adjusted Gross Income (MAGI) limits apply only to depositors that are individuals.

Contributions to a CESA can be made by the Designated Beneficiary and a Depositor not related to the Designated Beneficiary.

C. **Deductibility of Contributions** – No deduction is allowed for CESA contributions, including transfer and rollover contributions.

D. **Contribution Deadline** – The deadline for making a CESA contribution is the tax filing deadline for such year, which is typically April 15th (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.

E. **Excess Contributions** – Aggregate contributions for the benefit of a Designated Beneficiary in excess of $2,000 for a calendar year are treated as excess contributions. In order to avoid a penalty tax of 6 percent on the excess contribution, all excess contributions must be withdrawn prior to the first day of the sixth month of the taxable year following the taxable year for which the contribution was made. However, even if the excess tax was avoided, any earnings attributable to the excess must be included in the Designated Beneficiary's taxable income for the year in which the excess contribution was made. Penalty taxes should be reported and filed with the IRS with Form 5329, along with your income tax return.

## REQUIRED DISTRIBUTIONS

A. The assets of the CESA are required to be distributed to the Designated Beneficiary within 30 days of when the Designated Beneficiary reaches the age of 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.

B. In addition, any balance remaining in the CESA 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 the age of 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, 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.

B. If a qualified family member becomes the Designated Beneficiary, the Custodian, may require a total distribution of the CESA by December 31 of the year following the year of the original Designated Beneficiary's death.

## TAX CONSEQUENCES

A. **Tax-Deferred Earnings** – The investment earnings of the CESA are not subject to federal income tax as they accumulate in the CESA. In addition, withdrawals from the CESA are tax-free to the Designated Beneficiary to the extent the amount of the withdrawal does not exceed the Designated Beneficiary's qualified education expenses. However, if a Designated Beneficiary takes a distribution from the CESA 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 taxable portion of this non qualified distribution may also be subject to an additional 10 percent penalty tax, unless certain exceptions apply, such as a distribution on Account of a Designated Beneficiary and distributions for a disabled Designated Beneficiary as found in 26 U.S.C. Section 530 (d)(4).

B. **Qualified Education Expenses** – Qualified Education Expenses means qualified higher education expenses and qualified elementary and secondary education expenses. Qualified higher education expenses include expenses for tuition, fees, books supplies, and equipment required for enrollment or attendance of the Designated Beneficiary at an eligible educational institution. Qualified higher education expenses also include amounts contributed to a qualified state tuition program. Qualified higher education expenses also include room and board (generally the school's posted room and board charge, or $2,500 per year for students living off-campus and not at home) if the Designated Beneficiary is at least a half-time student at an eligible education institution.

Qualified elementary and secondary education expenses means expenses for tuition, fees, academic tutoring, special needs services, books, supplies and other equipment which are incurred in connection with the enrollment or attendance of the Designated Beneficiary as an elementary or secondary school student at a public, private, or religious school. Room and board, uniforms and transportation are included if required or provided by a public, private or religious school in connection with the enrollment or attendance.

An Eligible Educational Institution is any college, university, vocational school or other postsecondary educational institution that is described in Section 481 of the Higher Education Act of 1965.

The Hope Scholarship Credit and Lifetime Learning Credit can be claimed in the same year the child takes a tax-free withdrawal from the CESA, provided the distribution from the CESA is not used for the same expenses for which a credit is claimed.

C. **Income Tax Withholding** – Any withdrawal from the Coverdell ESA is not subject to federal income tax withholding.

**ROLLOVERS**

A. All amounts distributed from a CESA and rolled over to another CESA for the benefit of the same Designated Beneficiary or certain members of the Designated Beneficiary's family is not taxable so long as the requirements under Section 530(d)(5) of the IRC are met. For example, if the rollover is to a Designated Beneficiary's family member, the family member must not have attained the age of 30 (unless special needs family member) as of the date of the rollover contribution.

B. The Designated Beneficiary is allowed only one rollover per a 12 month period and the amount of the rollover must be completed no later than 60 days after the distribution is received.

C. Members of the Designated Beneficiary's family for purposes of the above include the Designated Beneficiary's child, grandchild, 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.

D. 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 explains the rules for rollover over the military death gratuity and lists eligible family members.

**RESTRICTIONS**

A. **Gift Tax** – Transfers of CESA 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 Section 2501.

B. **Prohibited Transactions** – If the Responsible Individual or Designated Beneficiary engages in a prohibited transaction, the CESA will lose its tax exempt status. If this occurs, the Designated Beneficiary would then have to 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 any portion of the CESA 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 CESA 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** – As the tax rules for CESAs are complex, you should consult your tax advisor if you have any questions about the information in this document. In addition, further information on CESAs 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 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. We may require other information that will allow us to identify the Depositor.

EQUITY INSTITUTIONAL®

# TRUSTEE FEE SCHEDULE
## For Traditional, Roth, SEP, SIMPLE, CESA, and HSA

| **Annual Fee** | |
|---|---|
| Annual Fee per Account | $ 15 |
| *Annual fees are charged on a calendar year basis and are not pro-rated.* | |
| Services Include:<br>• IRS approved retirement plans and trust/custodial documents. Maintain such trust/custodial documents in compliance with applicable federal laws and regulations.<br>• Maintaining customer data, including beneficiary designation.<br>• Annual required minimum distribution notices and, upon request, calculate required minimum distribution amounts.<br>• Remit and report tax withholding to appropriate agencies under our taxpayer ID.<br>• Provide IRS Forms 1099 and 5498, as required.<br>• Report fair market value of assets to IRS, as required. | |

| **Other Charges** | |
|---|---|
| Account Closing Fee | $ 20 |
| Outgoing Wire Processing | $ 25 |
| Tax Form Corrections | $ 25 |
| Processing on Terminated Trust<br>*Processing on terminated accounts after the account has been closed more than 6 months* | $ 25 |
| Reinstatement of Closed Account | $ 50 |
| Special services not otherwise provided above | As agreed |

***Please Note: In the event account fees become delinquent and it becomes necessary to collect the balance through the services of a collection agency, you will be held responsible for their fees.***

**Trustee fees are dependent on the Brokerage Firm who services your account. Please contact your Brokerage Firm for all fees applicable to your account. If you should transfer your account to another Brokerage Firm, a current schedule of fees should be requested.**

P. O. BOX 45274 | WESTLAKE, OH 44145 | PHONE: 800-209-9010 | FAX: 302-999-9554 | EMAIL: DTS@EQUITYINSTITUTIONAL.COM

    