

2005



Department of the Treasury
Internal Revenue Service

Instructions for Form 5498-ESA

Section references are to the Internal Revenue Code unless otherwise noted.

Reminder

In addition to these specific instructions, you should also use the 2005 General Instructions for Forms 1099, 1098, 5498, and W-2G. Those general instructions include information about:

- Backup withholding
- Magnetic media and electronic reporting requirements
- Penalties
- Who must file (nominee/middleman)
- When and where to file
- Taxpayer identification numbers
- Statements to recipients
- Corrected and void returns
- Other general topics

You can get the general instructions from the IRS website at www.irs.gov or by calling 1-800-TAX-FORM (1-800-829-3676).

Specific Instructions for Form 5498-ESA

File Form 5498-ESA, Coverdell ESA Contribution Information, with the IRS by May 31, 2006, for each person for whom you maintained any Coverdell education savings account (ESA) during 2005.

Contributions. You must report contributions, including rollover contributions, to any Coverdell ESA on Form 5498-ESA. See the instructions under Boxes 1 and 2.

For contributions made between January 1 and April 17, 2006, trustees and issuers should obtain the participant's designation for the year that the contributions are made.

Transfers. Report on Form 5498-ESA all rollovers including a direct trustee-to-trustee transfer from one Coverdell ESA to another Coverdell ESA. A rollover can be made from certain U.S. Savings Bonds or another Coverdell ESA. Any amount distributed from a Coverdell ESA may be rolled over to another Coverdell ESA and is not taxable if it is for the benefit of the same beneficiary or certain family members (see below).

Total distribution, no contributions. Generally, if a total distribution was made from an account during the year and no contributions including rollovers were made for that year, you do not need to file Form 5498-ESA.

Distributions. Report distributions from any Coverdell ESA on Form 1099-Q, Payments From Qualified Education Programs (Under Sections 529 and 530). Any change in the beneficiary of the Coverdell ESA is not treated as a distribution if the new beneficiary is a family member (see below) of the prior beneficiary and has not reached the age of 30 (except for a beneficiary with special needs).

Family member. A family member of the designated beneficiary includes his or her spouse, children and their descendants, stepchildren and their descendants, siblings and their children, parents and grandparents, stepparents, and their spouses. It also includes the first cousins of the designated beneficiary.

Statements to participants. If you are required to file Form 5498-ESA, you must provide a statement to the beneficiary (participant) by May 1, 2006.

For more information about the requirement to furnish statements to participants, see part H in the 2005 General Instructions for Forms 1099, 1098, 5498, and W-2G.

Account number. The account number is required if you have multiple accounts for a recipient for whom you are filing more than one Form 5498-ESA. Additionally, the IRS encourages you to designate an account number for all Forms 5498-ESA that you file. See part P in the 2005 General Instructions for Forms 1099, 1098, 5498, and W-2G.

Coverdell Education Savings Account

A Coverdell education savings account is a trust or custodial account created or organized in the United States exclusively for the purpose of paying the qualified education expenses of an individual who is the designated beneficiary of the trust. The account must be designated as a Coverdell ESA at the time it is created or organized in order to be treated as a Coverdell ESA for tax purposes. The governing instrument creating the trust must meet the following requirements.

1. No contribution will be accepted:
 - a. Unless it is in cash,
 - b. If it is made after the date on which the designated beneficiary attains age 18, except for beneficiaries with special needs, or
 - c. Except for rollover contributions, if the contribution would result in aggregate contributions exceeding \$2,000 for the year.
2. The trustee or custodian is a bank or other person approved by the IRS to serve as a nonbank trustee or custodian.
3. The trust assets may not be invested in life insurance contracts.
4. The assets of the trust cannot be commingled with other property except in a common trust fund or common investment fund, and
5. Any balance to the credit of the designated beneficiary must be distributed within 30 days after the date on which:
 - a. The beneficiary attains age 30 (except for a beneficiary with special needs) or
 - b. The beneficiary dies.

Box 1. Contributions (Other Than Amounts in Box 2)

Enter contributions to a Coverdell ESA made in 2005 and through April 17, 2006, designated for 2005.

Do not include in box 1 rollovers. Report rollovers in box 2.

Box 2. Rollover Contributions

Enter any rollover contributions (including trustee-to-trustee transfers) to this Coverdell ESA received by you during 2005 (see *Transfers* above).