

2003



Department of the Treasury
Internal Revenue Service

Instructions for Form 5498-ESA

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

What's New for 2003

Report Coverdell ESA contributions on new Form 5498-ESA, not **Form 5498**, IRA Contribution Information. Also, you must furnish Copy B (Form 5498-ESA) to the beneficiary for any calendar year by April 30 of the following year. File Copy A with the IRS by May 31 of the following year.

An Item To Note

In addition to these specific instructions, you should also use the **2003 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 Web Site 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, 2004, for each person for whom you maintained any Coverdell education savings account (ESA) during 2003.

Contributions. You must report contributions, including rollover contributions, to any Coverdell ESA on Form 5498-ESA. See the instructions under Boxes 1 and 2. If no reportable contributions were made for 2003, no return is required.

For contributions made between January 1 and April 15, 2004, trustees and issuers should obtain the participant's designation of the year for which 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.

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 need not 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 their 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.

Corrected Form 5498-ESA. If you filed a Form 5498-ESA with the IRS and later discover that there is an error on it, you must correct it as soon as possible. See part **I** in the General Instructions for Forms 1099, 1098, 5498, and W-2G. For example, if you reported a contribution as a rollover contribution in box 2, and you later discover that part of the contribution was a regular contribution that should have been reported in box 1, you must file a corrected Form 5498-ESA.

Statements to participants. If you are required to file Form 5498-ESA, you must provide a statement to the beneficiary (participant) by April 30, 2004.

For more information about the requirement to furnish statements to participants, see part **H** in the 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 such 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 2003 and through April 15, 2004, designated for 2003.

Do not include in box 1 rollovers (report rollovers in box 2).

Box 2. Rollover Contributions

Enter any **rollover contributions** to this Coverdell ESA received by you during 2003 (see **Transfers** on page ESA-1).