



Coverdell ESA

What can Quest IRA provide?

- Quest IRA administers Self-Directed IRAs (SDIRAs), HSAs, and Coverdell ESAs
- Fast and friendly service with no expedited fees
- World Famous Customer Service
- Most highly educated staff including H. Quincy Long, the preeminent expert in SDIRAs!

Four Ideas to Grow Your Small Account

1. Partner with other accounts to make a single investment.
2. Purchase options on property, which can then be exercised, assigned, or canceled for a fee.
3. Put a property under contract in your account and then assign the contract for a fee.
4. Purchase a property subject to an existing loan or with a non-recourse loan.

How to Pay for Education Expenses With Tax-Free Dollars

With the small contribution limits for Coverdell ESAs (CESA), you might wonder how investments can be made with small accounts. Some ideas include:

- 1) Partnering your account with others
- 2) Purchasing options
- 3) Wholesaling
- 4) Purchasing property with debt

Let's look at a quick case study: One client supercharged his daughter's Coverdell ESA by placing a burned-down house under contract in the CESA. The contract price was for \$5,500 and the earnest money deposit was \$100.

Since the CESA was the buyer on the contract, the earnest money came from that account. After depositing the contract with the title company, the client located another investor who specialized in rehabbing burned out houses.

The new investor agreed to pay \$14,000 for the property. At closing approximately one month later, the CESA received a check for \$8,500 on its \$100 investment. That is an astounding 8,400% return in only one month! How many people have done that well in the stock market or with a mutual fund?

But the story gets even better. Shortly after closing, the client took a TAX FREE

distribution of \$3,315 to pay for his 10 year old daughter's private school tuition. Later that same year he took an additional \$4,000 distribution. Assuming a marginal tax rate of 28%, this means that the client saved more than \$2,048 in taxes. In effect, this is the same thing as achieving a 28% discount on his daughter's private school tuition which he had to pay anyway!

“...this is the same thing as achieving a 28% discount...”

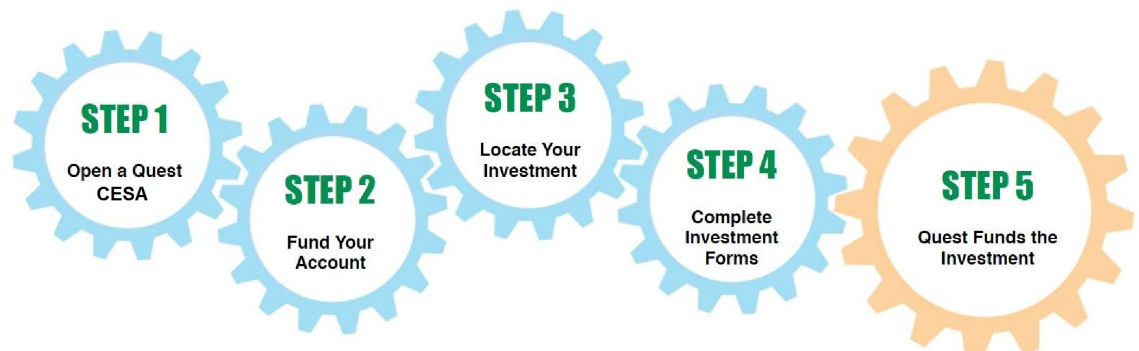
The CESA is similar to a Roth IRA, but for qualified education expenses only. You receive no tax deduction for contributing the money however qualified distributions are tax free forever.

Investing through a CESA can significantly reduce the effective cost of your child or grandchild's education.

As education costs continue to skyrocket, using the CESA as part of your overall investment strategy can be a wise move. With a self-directed CESA (or a self-directed IRA, 401(k) or HSA for that matter), you don't have to “think outside the box” when it comes to your CESA's investments. You just have to realize that the investment box is much larger than you think!

How Does it work?

5 STEPS TO USING YOUR CESA TO PURCHASE PRIVATE ASSETS





Coverdell ESA vs. 529 plan

	529 plan	Coverdell ESA
Who may be a beneficiary?	Anyone	A beneficiary is someone who is under age 30 or is a special needs beneficiary.
How much can you contribute?	Determined by each state	\$2,000 annually for 2013 until the beneficiary reaches the age of 18.
Can the beneficiary be changed?	Yes, if you are the account owner. No penalty applies if the new beneficiary is qualified member of the prior beneficiary's family.	Yes, if you are the account holder. No penalty applies if the new beneficiary is qualified member of the prior beneficiary's family and is not over age 30 when the change is made.
Who is the money controlled by?	State Government	You, the account holder.
Does the account holder maintain control over distribution of assets?	Yes	Yes
Are qualified withdrawals exempt from federal income tax?	Yes, if used for qualified education expenses.	Yes, if used for qualified education expenses.
What is the consequence of using for non-qualified expenses?	Withdrawn earnings subject to federal tax and 10% penalty.	Withdrawn earnings subject to federal tax and 10% penalty.
What is a qualified education expense?	Qualified <u>college expenses only</u> such as: Tuition, fees, books, supplies, equipment, special needs; room and board for minimum half-time students.	Qualified <u>elementary, secondary, college, and post-graduate education expenses</u> such as: Tuition, fees, books, supplies, equipment, special needs; room and board for minimum half-time students.
What is the impact on financial aid?	A parent-owned 529 Plan is reported as a parent asset on the FAFSA. If owned by grandparent, it is not included in FAFSA.	A parent-owned Coverdell ESA is reported as a parent asset on FAFSA. If owned by grandparent, it is not included in FAFSA.
Can it be self-directed?		