

Coverdell ESAs Subject to One Rollover Per Year Rule

Cross References

- IRS Program Manager Technical Assistance (PMTA) 2016-10

Prior to 2014, the IRS applied the one-rollover-per year limitation for IRAs on an IRA-by-IRA basis, meaning each IRA was limited to one rollover per year allowing a taxpayer to make multiple rollovers in one year using separate IRAs for each rollover. However, beginning in 2015, the IRS withdrew its proposed regulations and followed the *Bobrow* Tax Court decision (T.C. Memo. 2014-21) in which the court ruled an individual can make only one rollover from an IRA to another (or the same) IRA in any 1-year period regardless of the number of IRAs owned. The IRS recently was requested to provide guidance regarding the limitation on the number of rollovers permitted by Coverdell Education Savings Accounts (Coverdell ESAs). Are Coverdell ESAs subject to the same one rollover per year limit regardless of the number of ESAs owned by the taxpayer?

There is no published guidance interpreting Coverdell ESA rollover limitations. However, IRS Pub. 970, *Tax Benefits for Education*, states that only one rollover per Coverdell ESA is allowed during a 12-month period.

In light of the similarity of the language in the code concerning IRA rollovers and Coverdell ESA rollovers, the IRS recently stated in a Program Manager Technical Assistance letter that only one rollover per individual per year is permitted for Coverdell ESAs. The letter suggested that IRS Pub. 970 should be updated using the following language:

“You can make only one rollover from a Coverdell ESA to another Coverdell ESA in any 12-month period regardless of the number of Coverdell ESAs you own. However, you can make unlimited transfers from one Coverdell ESA trustee directly to another Coverdell ESA trustee because such transfers are not considered to be distributions or rollovers. The once in any 12-month period limitation rule does not apply to the rollover of a military death gratuity or payment from Servicemembers’ Group Live Insurance (SGLI).”