



Michael L. Fitzgerald, Treasurer of State

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**Treasurer Fitzgerald Cautious About Recent 529 College Savings Changes Under
the Federal Tax Reform Bill**

Extension of the benefits could cost millions

Des Moines, Iowa – State Treasurer Michael Fitzgerald is encouraging caution as the state reviews the impact of the federal tax reform bill (H.R.1) on Iowa 529 college savings plans. “Iowans may be hearing about the recent change by the federal government to include K-12 tuition as qualified distributions in 529 college savings plans,” Fitzgerald stated. “I would advise Iowans not to assume that the federal tax reform bill changes Iowa tax law. I want Iowans to know that it may take an act of the legislature to extend the Iowa state tax deduction benefit for K-12 tuition in the College Savings Iowa and IAdvisor 529 plans.” If a distribution is not qualified for state tax purposes, it would trigger a deduction recapture under Iowa tax law.

The federal tax reform bill recently passed by Congress included a provision to treat K-12 private school tuition payments as qualified withdrawals from a 529 plan. As a result, a distribution from a qualified 529 plan for this purpose would not be subject to a federal penalty or tax on the interest earned.

“After consultation with our counsel, our understanding is that the change to the federal statute permitting favorable federal tax treatment for withdrawals used for K-12 tuition does not change state tax law as to state tax treatment of contributions or withdrawals by participants,” Fitzgerald stated. “But that determination will need to be made by the Governor and the legislature. If they decide to extend this provision, it will come with a significant cost to the general fund. With over 32,000 kids in K-12 Iowa private schools,

the costs could be between \$3.7 and \$4.5 million for FY18. The numbers would increase significantly in future fiscal years. There needs to be thoughtful discussion on this topic before any decisions are made.”

Currently, the definition of a qualified withdrawal within Iowa law does not include K-12 tuition. The consequence of a non-qualified withdrawal is a recapture of the deduction. If an Iowa taxpayer took a withdrawal for K-12 tuition using money that they previously deducted on their state income taxes, under Iowa law they would have to add the principal amount of that distribution back as income in the year of the withdrawal if K-12 tuition is a nonqualified distribution. This would eliminate any tax benefit.

“This is a complex issue and we are reacting as quickly as we can.” Fitzgerald said. “While I cannot provide tax advice, I recommend that Iowans consult with their tax advisors before using an Iowa 529 Plan to pay for any K-12 tuition expenses.”

Michael Fitzgerald is the state treasurer of Iowa and is the Trustee of the Iowa Education Savings Plan Trust, which includes the College Savings Iowa 529 Plan and the IAdvisor 529 Plan. Combined assets under the Trust total over \$5 billion saved by Iowans and people around the country for future higher education costs.

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