

Tax Form 1099-Q for Your 529 College Savings Plan Account

Answers to common questions about Form 1099-Q

Why did I receive this form?

Generally, you receive a Form 1099-Q because a distribution was made from your 529 College Savings Plan account. You will receive a Form 1099-Q whether the distribution was part of a qualified or nonqualified withdrawal. However, you may also receive this form if you transferred your 529 plan account to another financial institution as a qualified rollover, or if your account was moved to another financial institution as a trustee-to-trustee transfer (i.e., a direct rollover).

Keep this form with your 2008 tax records; you may need it when you or your tax advisor prepares your income tax returns.

Who is the “designated beneficiary”?

The designated beneficiary is the student for whom the 529 College Savings Plan is intended to provide benefits.

Why was the Form 1099-Q issued under the name and Social Security number of my designated beneficiary? Will he or she owe taxes?

Form 1099-Q is issued in the name of the designated beneficiary if a distribution is made:

- Directly to the designated beneficiary; or
- To an eligible educational institution for the benefit of the designated beneficiary.

If both you and your designated beneficiary received distributions in 2008, each of you will receive a separate Form 1099-Q for the same account.

Receiving a Form 1099-Q does not mean you or your designated beneficiary owe taxes on the reported earnings. Generally, if the distribution was used for qualified education expenses, the distribution is federally tax-free for both you and your designated beneficiary.

Part of the withdrawal was used for education expenses; do I still owe taxes on the money distributed from the account?

Not necessarily. The earnings portion of a distribution, reported in Box 2 of the form, may or may not be taxable, depending on the nature of the withdrawal.

continued on page 2 >

Reported earnings generally are *not* taxable if they were part of a qualified distribution—a withdrawal that was used to pay for the designated beneficiary’s qualified education expenses (such as tuition, books, fees, etc.) in the year of distribution. Earnings that were part of trustee-to-trustee transfers and qualified rollovers are also generally not taxable.

Reported earnings generally are taxable if they are part of a nonqualified distribution—a withdrawal that was used for any other purpose besides qualified education expenses. These earnings must be reported on your federal and (if applicable) state income tax returns, and will be taxed at ordinary income tax rates. See the graphic of Form 1040 on page 3 for an example of where to report these earnings on your federal return. Additionally, a 10% federal tax penalty may apply.

In some cases, such as the death of a beneficiary or the beneficiary’s receipt of a scholarship, nonqualified withdrawals may not be subject to the 10% federal tax penalty (though ordinary income tax still applies). To learn more about these exceptions, go to www.irs.gov or consult your tax advisor.

Why doesn’t Form 1099-Q indicate whether the reported earnings are taxable?

Distributions from a 529 plan account can be made without receipts, billing information, or any other records to prove that the money withdrawn was used for qualified education expenses. Additionally, the beneficiary may have received other tax-free education assistance—such as a scholarship, Hope or Lifetime Learning credit, Pell Grant, etc.—that may affect the portion of a distribution from the account

that is taxable. Therefore, we are unable to determine whether a distribution is qualified or nonqualified, how much of the reported earnings is taxable, and whether the 10% federal tax penalty applies.

Under IRS rules, qualified tuition program account owners are responsible for determining the federally taxable portion of their distributions. You should also consider your own state’s tax rules for determining your state tax liability.

My distribution was made to a private university. Why is the “State” box checked in Box 5?

Box 5 does not indicate whether your distribution was made to a private or state university. Box 5 shows whether the gross distribution was from a qualified tuition program (either private or state-sponsored) or from a Coverdell ESA. The “State” box is checked because the distribution was made from a qualified tuition program established by a state (such as your state-sponsored 529 plan).

For more information on your 529 College Savings Plan account, please contact a Client Service Representative at the telephone number listed on your Form 1099-Q. For tax-related issues, please refer to IRS Publication 970, or consult your tax advisor or the IRS.

How to use Form 1099-Q

Form 1099-Q

CORRECTED (if checked)

PAYER'S/TRUSTEE'S name, street address, city, state, ZIP code, and telephone number 529 COLLEGE SAVINGS PLAN 1234 WEST MAIN STREET MINNEAPOLIS, MN 55402		1 Gross distribution \$ 5,000.00	OMB No. 1545-1760 2008 Form 1099-Q	Payments From Qualified Education Programs (Under Sections 529 and 530)
PAYER'S/TRUSTEE'S federal identification no. 98-7654321		2 Earnings \$ 2,000.00	3 Basis \$ 3,000.00	
RECIPIENT'S name JANE DOE Street address (including apt. no.) 1234 WEST MAIN STREET BOSTON, MA 02123		4 Trustee-to-trustee transfer <input type="checkbox"/> 5 Check one: • Qualified tuition program— Private <input type="checkbox"/> or State <input checked="" type="checkbox"/> • Coverdell ESA <input type="checkbox"/> If an FMV amount is shown below, see Pub. 970, Tax Benefits for Education, for how to figure earnings.		Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S social security number 000-00-0021 Account number (see instructions) 987654321-01		6 If this box is checked, the recipient is not the designated beneficiary <input checked="" type="checkbox"/>		

Form 1099-Q
(keep for your records)
Department of the Treasury - Internal Revenue Service

Form 1040

Form **1040** Department of the Treasury—Internal Revenue Service **2008** U.S. Individual Income Tax Return

OMB No. 1545-0074

Label (See instructions on page 12.) Use the IRS label. Otherwise, please print or type. Presidential	<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2">For the year Jan. 1–Dec. 31, 2007, or other tax year beginning</td> <td style="text-align: right;">2008, ending</td> </tr> <tr> <td>Your first name and initial</td> <td colspan="2">Last name</td> </tr> <tr> <td>If a joint return, spouse's first name and initial</td> <td colspan="2">Last name</td> </tr> <tr> <td colspan="2">Home address (number and street). If you have a P.O. box, see page 12.</td> <td>Apt. no.</td> </tr> <tr> <td colspan="3">City, town or post office, state, and ZIP code. If you have a foreign address, see page 12.</td> </tr> </table>	For the year Jan. 1–Dec. 31, 2007, or other tax year beginning		2008, ending	Your first name and initial	Last name		If a joint return, spouse's first name and initial	Last name		Home address (number and street). If you have a P.O. box, see page 12.		Apt. no.	City, town or post office, state, and ZIP code. If you have a foreign address, see page 12.		
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	11				
	12				
	13				
	14				
	15a		b Taxable amount (see page 21)		
	16a		b Taxable amount (see page 22)		
	17				
	18				
	19				
	20a		b Taxable amount (see page 24)		
	21			\$2,000.00	E
	22				
	23				

- A** Form 1099-Q may be issued to the designated beneficiary or the account holder of a 529 plan account. If a distribution is made directly to a beneficiary or to an educational institution for the benefit of a beneficiary, Form 1099-Q will be issued in the name of the beneficiary. If a distribution is made to the account holder, Form 1099-Q will be issued in the name of the account holder. If both you and your designated beneficiary received distributions in 2008, each of you will receive a separate Form 1099-Q for the same account.
- B** Box 1 reports all distributions, whether taxable or not.

- C** Box 2 reports the portion of the amount shown in Box 1 that is attributable to earnings. Any earnings that are a part of a **nonqualified withdrawal** must be reported on Line 21 of your Form 1040.
- D** Box 6 will be checked if the distribution is *not* made directly to, or for the benefit of, the designated beneficiary.
- E** Determine the amount and report the earnings attributable to a nonqualified withdrawal on Line 21 of your Form 1040. Do not include earnings that are part of a qualified withdrawal.