IDAHO State Tax Commission

Tax Consequences of Federal and Idaho College Savings Program Withdrawals

		Federal treatment	Idaho treatment
		Qualified Tuition Program (QTP) - IRC § 529 ("529 Plan")	***College Savings Program - Idaho Title 33, Chapter 54 - Idaho Code § 63-3022(n), (o), and (p)***
Qualified withdrawals		Distributions used to pay the qualified higher education expenses[1] of the beneficiary.	A withdrawal from an account to pay the qualified higher education expenses[1] of the designated beneficiary of the account, but only if the withdrawal is made according to Idaho Code § 33-5401(12)
	Principal/Return of Investment	Not taxed	Not taxed (follows federal code)
	Earnings	Not taxed	Not taxed (follows federal code)
	10% additional federal tax[2]	Doesn't apply	Doesn't apply
Withdrawals due to death, disability, or scholarship[3]		Treated as nonqualified withdrawals	Treated as a qualified withdrawal for Idaho purposes, but earnings included in federal taxable income are also taxed by Idaho.
	Principal/Return of Investment	Not taxed	Not taxed (follows federal code)
	Earnings	Taxable to the recipient. From IRS Publication 970: 1. Multiply the total distributed earnings shown on box 2 of Form 1099-Q by a fraction. The numerator is the adjusted qualified education expenses[4] paid during the year and the denominator is the total amount distributed during the year. 2. Subtract the amount figured in (1) from the total distributed earnings. The result is the amount the beneficiary must include in income.	Follows federal code: taxed to the designated beneficiary when withdrawal is made by designated beneficiary per Idaho Code § 33-5405.
	10% additional federal tax	Doesn't apply unless the amount withdrawn exceeds the amount of scholarship or allowance.	Doesn't apply

[1] Qualified higher education expenses are defined in 26 United State Code (U.S.C.) § 529(e)(3)

[2] For 2002 and later, this 10% additional federal tax is paid to the IRS on the taxpayer's federal return.

[3] For Idaho income tax purposes, these withdrawals don't come under the definition of nonqualified withdrawals. Idaho Code § 33-5401(8) defines "nonqualified withdrawal" to mean an account withdrawal that isn't one of the following:

- A qualified withdrawal *(continued bottom of next page)*

		Federal treatment	Idaho treatment
Withdrawals due to attendance at certain military academies[5]		Amounts equal to the costs of advanced education for the beneficiary's attendance at the qualifying academy are treated as nonqualified withdrawals	Taxed as a nonqualified withdrawal[6]
	Principal/Return of Investment	Not taxed	Taxed as a nonqualified withdrawal. Principal withdrawn is added in calculation of Idaho adjusted income on Idaho Form 39R or 39NR if a state tax deduction was previously taken.
	Earnings	Taxable to the beneficiary. From IRS Publication 970: 1. Multiply the total distributed earnings shown on box 2 of Form 1099-Q by a fraction. The numerator is the adjusted qualified education expenses[4] paid during the year and the denominator is the total amount distributed during the year. 2. Subtract the amount figured in (1) from the total distributed earnings. The result is the amount the beneficiary must include in income.	Taxable to the extent not already included in federal gross income — Idaho Code § 63-3022(o) according to IRC § 529. An addition is required on Form 39R or 39NR for earnings not included in federal adjusted gross income.
	10% additional federal tax	Doesn't apply unless the amount withdrawn exceeds the amount of the costs of advanced education attributable to the attendance at the qualifying academy.	Doesn't apply

- A withdrawal made due to the death or disability of the designated beneficiary of an account
- A withdrawal that's made because of a scholarship as defined in 26 U.S.C. § 117 or an educational allowance as defined in 26 U.S.C. § 25A(g)(2)
- A rollover or change of the designated beneficiary

See note at the end of this document for more information on qualified expenses.

[4] Adjusted qualified education expenses are the total qualified education expenses reduced by any tax-free educational assistance (tax-free scholarships and fellowship grants).

[5] For 2003 and later, U.S.C. § 530(d)(4)(iv) provides an exception from the additional tax for distributions not used for education expenses for those "made on account of the attendance of the designated beneficiary at the United States Military Academy, the United States Naval Academy, the United States Air Force Academy, the United States Coast Guard Academy, or the United States Merchant Marine Academy, to the extent that the amount of the payment or distribution doesn't exceed the costs of advanced education (as defined by U.S.C. title 10, § 2005(e)(3) as in effect on the date of the enactment of this section) attributable to such attendance."

[6] Not excluded as a nonqualified withdrawal under Idaho Code § 33-5401. Isn't included in the definition of a scholarship as defined in 26 U.S.C. § 117 because military academies aren't qualified educational institutions under 26 U.S. C. § 170.

		Federal treatment	Idaho treatment
Withdrawals where American Opportunity or Lifetime Learning credits are also claimed		A designated beneficiary can claim an American Opportunity Tax credit (AOTC) or Lifetime Learning credit in the same year the beneficiary takes a tax-free distribution from an IDeal account as long as the same expenses aren't used for both benefits. To determine whether any part of the distribution is includable in income, total qualified higher education expenses must be reduced by the amount of those expenses that were taken into account in determining the credit allowed to the taxpayer or any other person under the IRC § 25A education credit (e.g. the AOTC credit and Lifetime Learning credit). After the beneficiary reduces higher education expenses by tax-free education assistance, the beneficiary must further reduce the expenses by the expenses taken into account in determining the credit.	Claiming a federal credit doesn't convert otherwise qualified withdrawals into nonqualified withdrawals.
	Principal/Return of Investment	Not taxed	The amount of principal that exceeds the adjusted qualified educational expenses[4] is treated as a nonqualified withdrawal and added to compute Idaho adjusted income on Form 39 or 39NR.
	Earnings	Taxable if the adjusted qualified education expenses[4] reduced by the expenses used in figuring the AOTC or Lifetime Learning credit is less than the distribution. From IRS Publication 970: 1. Multiply the total distributed earnings shown on box 2 of Form 1099-Q by a fraction. The numerator is the adjusted qualified education expenses paid during the year and the denominator is the total amount distributed during the year. 2. Subtract the amount figured in (1) from the total distributed earnings. The result is the amount the beneficiary must include in income.	The amount of earnings that exceeds the adjusted qualified education expenses[4] is treated as a nonqualified withdrawal. Taxable to the extent not already included in federal gross income – Idaho Code § 63-3022(o). An addition is required on Form 39R or 39NR for earnings not included in federal adjusted gross income.
	10% additional federal tax	Doesn't apply	Doesn't apply

		Federal treatment	Idaho treatment
Nonqualified withdrawals		Distributions that don't qualify as qualified withdrawals	*See footnote 3.*
	Principal/Return of Investment	Not taxed	Taxable – Idaho Code § 63-3022(o) Add in calculation of Idaho adjusted income as an addition on Form 39R or 39NR for principal if a state tax deduction was previously taken.
	Earnings	Taxable to the account owner. Total distributed earnings (Form 1099-Q). Multiply this by adjusted qualified higher education expenses paid during year divided by total amount distributed during the year	Taxable to the extent not already included in federal gross income – Idaho Code § 63-3022(o) according to IRC § 529. An addition is required on Form 39R or 39NR for earnings not included in federal adjusted gross income.
	10% additional federal tax	Yes – applies to earnings portion includable in gross income paid by the account owner on his/her federal income tax return	Doesn't apply
Rollovers		Amounts in an IDeal account of one beneficiary can be transferred or rolled over tax free to another qualified account or qualified ABLE account for the same beneficiary, but only once within any 12-month period for the same beneficiary. Allows for a change in beneficiary to a member of the family of the transferor designated beneficiary to not be treated as a distribution. 60-day time limit on completion of transfer.	Included in the definition of qualified withdrawals. Follows federal tax treatment. However, if money is transferred to a qualified tuition program that's operated by a state other than Idaho, or a qualified ABLE account, an addition is required but limited to the amount of the contributions to the Idaho savings account that were deducted on the account owner's Idaho income tax return for the year of the transfer and the prior tax year – Idaho Code § 63-3022(p).
	10% additional federal tax	Doesn't apply	Doesn't apply
Contributions		Not deductible	Deductible up to $6,000 ($12,000 on a joint return) – Idaho Code § 63-3022(n). A subtraction is allowed on Idaho Form 39R or 39NR.[6]

[6] Deductible contributions for tax years before 2017 are limited to $4,000 for single individuals and $8,000 on a married filing joint return.

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