

# 2004



Department of the Treasury  
Internal Revenue Service

# Instructions for Form 1099-Q

Section references are to the Internal Revenue Code unless otherwise noted.

## An Item To Note

In addition to these specific instructions, you should also use the **2004 General Instructions for Forms 1099, 1098, 5498, and W-2G**. Those general instructions include information about:

- Backup withholding
- Magnetic media and electronic reporting requirements
- Penalties
- Who must file (nominee/middleman)
- When and where to file
- Taxpayer identification numbers
- Statements to recipients
- Corrected and void returns
- Other general topics

You can get the general instructions from the IRS website at **www.irs.gov** or by calling 1-800-TAX-FORM (1-800-829-3676).

## Specific Instructions for Form 1099-Q

File **Form 1099-Q**, Payments From Qualified Education Programs (Under Sections 529 and 530), if you made a distribution from a qualified tuition program defined under section 529 or a Coverdell education savings account (ESA) defined under section 530.

**Note:** *Do not file Form 1099-Q for a change in the name of the designated beneficiary on a qualified tuition program account if the new beneficiary is a member of the former beneficiary's family. Also, for a Coverdell ESA, the new beneficiary must be a member of the designated beneficiary's family and be under age 30 (except beneficiaries with special needs).*

## Qualified Education Programs

### Qualified Tuition Program

A qualified tuition program is a program described in section 529 that is established and maintained by a private eligible educational institution or a state (or its agency or instrumentality).

Under a qualified tuition program a person:

1. May purchase tuition credits or certificates on behalf of a designated beneficiary that entitle the beneficiary to the waiver or payment of qualified higher education expenses or
2. In the case of a program established and maintained by a state, may make contributions to an account established to meet the higher education expenses of the designated beneficiary.

Other rules apply. See Proposed Regulations section 1.529-2 and Notice 2001-81, 2001-2 C.B. 617.

## Coverdell Education Savings Account (ESA)

Coverdell ESAs are described under section 530. Report any contributions or rollovers for these accounts on **Form 5498-ESA**, Coverdell ESA Contribution Information. See the **Instructions for Form 5498-ESA** for more information.

### Family Member

A family member of the designated beneficiary includes their spouse, children and their descendants, stepchildren and their descendants, siblings and their children, parents and grandparents, stepparents, and their spouses. It also includes the first cousins of the designated beneficiary.

### Statements to Recipients

If you are required to file Form 1099-Q, you must provide a statement to the recipient. Furnish a copy of Form 1099-Q or an acceptable substitute statement to each recipient. Also, see part **H** in the **2004 General Instructions for Forms 1099, 1098, 5498, and W-2G**.

## Program's Name and Employer Identification Number (EIN)

In the payer's/trustee's name and Federal identification number areas of the form, enter the name and EIN of the qualified tuition program or that of the trustee for a Coverdell ESA.

If the qualified tuition program is a program established and maintained by a state using the EIN of the state, enter the name of the state on the first name line and the name of the program on the second name line.

## Recipient's Name and Social Security Number (SSN)

For a **qualified tuition program**, list the designated beneficiary as recipient only if the distribution is made **(a)** directly to the designated beneficiary or **(b)** to an eligible educational institution for the benefit of the designated beneficiary. Otherwise, list the account owner as the recipient of the distribution. Enter the SSN for the applicable recipient.

For a **Coverdell ESA**, enter the name and SSN of the designated beneficiary as the recipient.

### Box 1. Gross Distribution

Gross distributions from a **qualified tuition program**, whether in cash or in kind, include tuition credits or certificates, payment vouchers, tuition waivers, or other similar items. Gross distributions also include a refund to the account owner or the designated beneficiary, or to the beneficiary upon death or disability. For more information on reporting distributions, see Proposed Regulations section 1.529-4.

Gross distributions from a **Coverdell ESA** include a refund, a payment upon death or disability, or a withdrawal of excess contributions plus earnings.



If earnings and basis are not reported for Coverdell ESA distributions, leave boxes 2 and 3 blank. Do not enter zero. Instead, you must report the fair market value (FMV) as of the end of the year in the blank box below boxes 5 and 6. Label the amount "FMV." See Notice 2003-53, 2003-33 I.R.B. 362, for more reporting requirements.

## Box 2. Earnings

Use the earnings ratio described in Proposed Regulations section 1.529-3 and Notice 2001-81 to determine the earnings (or loss) on the gross distribution reported in box 1. Enter the earnings in box 2. If there is a loss and this is not the final year for distributions from the account or there are no earnings, enter zero in box 2. Enter a loss in box 2 only if this is the final year for distributions from the account. Any earnings are not subject to backup withholding.

If you are reporting a distribution from a Coverdell ESA that includes a returned contribution plus earnings, you should file two Forms 1099-Q—one to report the returned contribution plus earnings, the other to report the distribution of the other part of the account.

You should file a separate Form 1099-Q for **any** trustee-to-trustee transfer.

For Coverdell ESAs, if you are not reporting earnings, see the **Caution** above.



For Coverdell ESAs, if you are reporting earnings on a distribution of excess contributions, use the method for calculating the net income attributable to IRA contributions that are distributed as a returned contribution under Notice 2000-39, 2000-30 I.R.B. 132, and Proposed Regulations section 1.408-11.

Use the blank box below boxes 5 and 6 to indicate that the amount in box 2 includes earnings on excess contributions. To meet this requirement, enter distribution code 2 or 3 (as applicable) in the blank box. See Notice 2003-53 for more information.

## Box 3. Basis

Enter the basis in the gross distribution reported in box 1. The amount in box 3 must equal box 1 minus box 2.

For Coverdell ESAs, if you are not reporting basis, see the **Caution** above.



For determining basis of a Coverdell ESA, you may rely on Notice 2001-81.

## Box 4. Trustee-to-Trustee Transfer Checkbox

Check this box if the distribution was made directly (trustee-to-trustee transfer) from one qualified tuition program to another. For a Coverdell ESA, check this box if the distribution was made directly to another Coverdell ESA or a qualified tuition program.

In a **trustee-to-trustee transfer** between qualified education programs, the distributing program must provide you a statement reporting the earnings portion of the distribution within 30 days of the distribution or by January 10th, whichever is earlier. You must properly account for this in computing the earnings or (loss) reported in box 2 and the basis reported in box 3.



If you do not have records of whether a gross distribution from a Coverdell ESA made in 2004 was a trustee-to-trustee transfer, leave Box 4 blank.

## Box 5. Checkbox

Check the "Private" box to indicate the distribution is from a qualified tuition program established by one or more private eligible educational institutions or check the "State" box to indicate the distribution is from a qualified tuition program established by a state. Otherwise, check the "Coverdell ESA" box.

## Box 6. Designated Beneficiary Checkbox

Check the box if the recipient is not the designated beneficiary under a qualified tuition program or a Coverdell ESA (see section 529(e)(1)).

**Distribution codes.** For 2004, you may, but are not required, to include one of the following distribution codes in the blank box below boxes 5 and 6. You may abbreviate as needed. For example, for distribution code 1, you may enter "distr. code 1."

1—Distributions

Use this code for distributions (including transfers) to the account holder and any direct payments to a qualified educational facility. However, use codes 2 or 3 for withdrawals of excess contributions.

2—Excess contributions plus earnings taxable in 2004

Use this code for withdrawals of excess Coverdell ESA contributions and earnings unless Code 3 applies.

3—Excess contributions plus earnings taxable in 2003

Use this code for withdrawals of excess contributions from a Coverdell ESA. Advise payees, at the time the distribution is made, that the earnings are taxable in the year in which the contributions were made.

4—Disability

Use this code if you made distributions after the account holder was disabled (see section 72(m)(7)).

5—Death

Use this code for payments to a decedent's beneficiary, including an estate.

6—Prohibited transaction

See section 530(e).