



State of Iowa
Treasurer's Office

Capitol Building
1007 E Grand Ave.
Des Moines, IA 50319

**College Savings Iowa / IAdvisor 529 Plan
SECURE Act Fact Sheet
7/1/2020**

Disclaimer

This Fact Sheet is not intended to provide tax or legal advice. If you are considering making withdrawals from Iowa 529 plan for Apprenticeship Expenses or Loan Repayments and you have specific questions about the impact to you, please seek guidance from a tax professional or attorney. This document is subject to change.

Federal Law Change

The SECURE Act permits withdrawals from a 529 college savings account for (1) fees, books, supplies and equipment required for participation in an apprenticeship program registered and certified with the Secretary of Labor under the National Apprenticeship Act ("Apprenticeship Expenses"), and (2) amounts paid as principal or interest on any qualified education loan of the beneficiary or a sibling of the beneficiary; provided that the total cumulative amount in all years that may be used from all accounts for repayment of loans of a beneficiary or sibling of the beneficiary may not exceed \$10,000 ("Loan Repayments"). These provisions apply to distributions made after December 31, 2018. We are working on updating our website to reflect the new law. In the meantime, the website may not address the changes.

Iowa State Law Change

Effective January 1, 2019 for tax years beginning on or after that date, Iowa has extended the favorable Iowa state tax treatment to qualified withdrawals for Apprenticeship Expenses or Loan Repayments. If a withdrawal is not qualified for state tax purposes, it would trigger a deduction recapture under Iowa tax law.

Non-Iowa State Law Change

The tax treatment of withdrawals for Apprenticeship Expenses or Loan Repayments for taxpayers in non-Iowa states will be determined by the account owner's state of residence and will vary from state to state. Each state will ultimately determine the treatment of these withdrawals independently. Account owners should consult their tax advisors for further guidance.

Distributions

For now, account owners may request payments for Apprenticeship Expenses or Loan Repayments be made payable to the participant or the beneficiary, but the account owner should not request a payment be made directly to the institution providing the apprenticeship training or to a lender.

FAQs

Are Apprenticeship Expenses and Loan Repayments each a qualified withdrawal for federal tax purposes?

Yes. Account owners can withdraw assets to pay Apprenticeship Expenses or Loan Repayments and can treat the withdrawals as qualified expenses with respect to the federal tax benefit. The use of a withdrawal from a 529 college savings account for Loan Repayments will reduce the amount of the deduction for student loan interest paid to which the taxpayer might otherwise be entitled.

Are Apprenticeship Expenses and Loan Repayments a qualified withdrawal for Iowa state tax purposes?

Yes. Account owners may withdraw assets from a 529 college savings account for (1) Apprenticeship Expenses and (2) Loan Repayments, and can treat the withdrawals as qualified expenses with respect to the state tax benefit for Iowa taxpayers. Qualified withdrawals are not taxed as income. Non-qualified withdrawals are subject to recapture.

What is the Iowa state recapture on non-qualified withdrawals?

Contributions to College Savings Iowa or to the IAdvisor 529 Plan that were previously deducted for Iowa income tax purposes must be included as Iowa income when distributed, unless they are used to pay for qualified higher education expenses. For Iowa income tax purposes, a rollover to a non-Iowa 529 plan will be treated as a nonqualified withdrawal and taxed as income to the extent previously deducted as a contribution to College Savings Iowa or to the IAdvisor 529 Plan.