

781—16.12(12D) Nonqualified withdrawals and cancellation. Iowa Code section 12D.5 provides that any account owner may cancel a participation agreement at will. This rule establishes the criteria for nonqualified withdrawals from an account or for the cancellation of a participation agreement.

16.12(1) A nonqualified withdrawal is one in which the funds are used for a purpose other than the payment of or reimbursement for qualified educational expenses. An account owner may at any time make a nonqualified withdrawal of a portion of the amount in an account or cancel a participation agreement, without cause, by submitting to the contractor the appropriate form. A nonqualified withdrawal will be paid only to the account owner.

16.12(2) If the participation agreement is canceled, the account owner is entitled to the amount in the account, subject to any applicable fees and expenses. The balance shall be mailed or otherwise sent to the account owner after receipt by the contractor of the appropriate form.

16.12(3) Funds that are distributed to an account owner in a nonqualified withdrawal pursuant to this rule shall be reported to the IRS on a 1099-Q in the tax year in which such withdrawal is made. The account owner will receive the 1099-Q for any nonqualified withdrawals. The individual receiving the 1099-Q must determine whether the withdrawal was qualified or nonqualified. Nonqualified withdrawals may be subject to state and federal taxes and penalties.

[ARC 4463C, IAB 5/22/19, effective 6/26/19; ARC 8845C, IAB 1/22/25, effective 2/26/25]