

**MEMO# 16405**

August 4, 2003

## **IRS DELAYS CERTAIN REPORTING REQUIREMENTS FOR IRS FORM 1099-Q APPLICABLE TO COVERDELL EDUCATION SAVINGS ACCOUNTS**

[16405] August 4, 2003 TO: 529 PLAN ADVISORY COMMITTEE No. 43-03 OPERATIONS MEMBERS No. 22-03 PENSION MEMBERS No. 36-03 PENSION OPERATIONS ADVISORY COMMITTEE No. 48-03 TAX MEMBERS No. 42-03 TRANSFER AGENT ADVISORY COMMITTEE No. 72-03 RE: IRS DELAYS CERTAIN REPORTING REQUIREMENTS FOR IRS FORM 1099-Q APPLICABLE TO COVERDELL EDUCATION SAVINGS ACCOUNTS We are pleased to inform you that the Internal Revenue Service ("IRS") has announced in the attached Notice (2003-53) that requirements it previously announced regarding the reporting on IRS Form 1099-Q of earnings and basis from Coverdell Education Savings Accounts ("ESAs")<sup>1</sup> will not be imposed for distributions made during 2003. Notice 2003-53 provides alternative reporting requirements for any trustee or custodian unable to calculate the earnings and basis portions of a 2003 distribution. As the Institute noted its submission made following the release of Form 1099-Q,<sup>2</sup> ESA recordkeepers do not presently have the information necessary to calculate earnings and basis. While the Institute has urged that earnings and basis calculations should remain the responsibility of the ESA account holder, we also have urged (should the earnings and basis reporting requirements remain) that any reporting obligation be imposed prospectively, for new accounts opened after a transition period sufficient to permit recordkeepers to comply with the new requirements. Notice 2003-53 indicates that the IRS views the relief provided by this guidance<sup>3</sup> as temporary. According to the Notice, this delay will provide ESA trustees and custodians with 1 See Institute Memorandum No. 15656, to 529 Plan Advisory Committee No. 11-03, Operations Members No. 6-03, Pension Members No. 9-03, Pension Operations Advisory Committee No. 8-03, Tax Members No. 11-03 and Transfer Agent Advisory Committee No. 19-03, dated February 19, 2003. 2 See Institute Memorandum No. 15981, to 529 Plan Advisory Committee No. 25-03, Operations Members No. 13-03, Pension Members No. 19-03, Pension Operations Advisory Committee No. 23-03, Tax Members No. 26-03 and Transfer Agent Advisory Committee No. 42-03, dated April 30, 2003. 3 This guidance does not apply to section 529 qualified tuition programs, which are required to report distributions under Notice 2001-81. See Institute Memorandum No. 14216, to 529 Plan Advisory Committee No. 15-01, Operations 2 additional time to implement recordkeeping procedures to report earnings and basis information and to identify trustee-to-trustee transfers. Public comment is requested by the IRS on sources of information to establish earnings and basis that should be considered satisfactory and on an appropriate rule for determining earnings and basis if documentation is not available. The IRS states that these comments are to be provided by October 17,

2003. Please provide to the undersigned by September 2, 2003 any suggestions you may have for comments that the Institute should file in response to this Notice. Lisa Robinson Assistant Counsel Attachment (in .pdf format) Members No. 31-01, Tax Members No. 33-01 and Transfer Agent Advisory Committee No. 102-01, dated December 10, 2001.

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