

1099-Q Question & Answers

1. Question

Why do I have an earnings amount?

Answer

The earnings amount reported in Box 2 represents the increase in value of your MET contract, over the original amount paid for the contract and prorated over the number of years the beneficiary receives benefits. Beginning January 1, 2002 the IRS provides that any earnings on MET distributions used to pay for a beneficiary's qualified higher education expenses (i.e. tuition, fees, books, supplies and equipment required at an eligible higher education institution, and room and board) **may be** exempt from federal and state income taxes.

Earnings on MET distributions not used to pay for qualified higher education expenses are subject to state and federal income taxes and a 10 percent federal excise tax. Federal Form 1040, Schedule 1, report taxable earnings amount as "other income" on line 21. Include an explanation identifying the amount listed on line 21 as "MET unearned income." **Please refer to IRS Publication 970 for detailed instructions.**

2. Question

How did you determine what my earnings amount was?

Answer

The earnings amount is determined by a formula. It is based on the increase in value of the MET contract, over the original amount paid for the contract and it is prorated over the number of years the beneficiary will receive benefits.

FORMULA

A. For contracts paid based on credit hours

MET took the prepaid tuition amount plus the processing/application fee to arrive at the total contract price. Then, we calculate a cost per credit hour (**total contract price divided by the total credit hours equals the cost per credit hour**). The cost per credit was then multiplied by the actual number of credit hours taken for the year to arrive at the 1099 cost amount (**cost per credit hour x credit hours taken equals the 1099 cost basis in box 3**). The 1099 cost amount is subtracted from the amount actually paid to the beneficiary/college to arrive at the earnings amount (**gross distribution minus 1099 cost basis equals the earnings amount**). (See MET Student Handbook pg. 22).

B. For contracts paid based on refund amounts

For terminated contracts we calculate cost factor (**total contract price divided by total refund amount due**). The cost factor is then multiplied by the amount paid to arrive at 1099 cost amount (**cost factor x amount paid equals 1099 cost basis in box 3**). The 1099 cost amount is subtracted from the amount actually paid to arrive at the earnings amount (**gross distribution minus 1099 cost basis equals the earnings amount**).

3. Question

If I have no earnings amount, why am I receiving a 1099?

Answer

The Internal Revenue Service (IRS) requires all Qualified Tuition Plans (also called section 529 Plans) such as MET to issue a Form 1099-Q to participants who received MET benefits or refunds during the 2018 tax year. If you had any earnings on Box 2 of the Form 1099-Q you may include it on your tax return if necessary. This information is for your records and verification. If you notice any errors or discrepancies, please let us know by **February 15, 2019**, so that we may correct our records.

4. Question

Where do I report this income on my federal return (what line)?

Answer

Report the taxable income amount as **“other income”** on line 21 of Form 1040, Schedule 1. Attach a note to the form explaining what it is, (i.e., “MET UNEARNED INCOME”). **Please refer to IRS Publication 970 for detailed instructions.**

5. Question

Do I need to complete schedule SE **or** do I owe any self-employment tax/social security tax?

Answer

No. Earnings on MET distributions are not subject to Federal Self-Employment Tax/Social Security Tax; therefore, you do not need to file a schedule SE.

6. Question

Where do I report the taxable amount on my Michigan Tax return?

Answer

Your Michigan income tax return uses adjusted gross income from the federal return. If you reported the taxable amount on your federal return, it will be included in the ADJUSTED GROSS INCOME (AGI) amount transferred to your state return. So, you don't need to make any special adjustments on your Michigan income tax return.

7. Question

Can I deduct the 1099 unearned income on the Michigan Income tax form?

Answer

No. Except in the case when the refund designee is the purchaser. If refund designee is the purchaser, see **MI-1040 Schedule 1, line 18** on the Michigan tax return.

8. Question

What can be claimed as a deduction on **line 13** of my Michigan income tax form?

Answer

This deduction is applicable if you made any lump sum or monthly purchase contract payments during calendar year 2018. If you made such payments, you may deduct the total amount you paid on **line 13**. See instructions for **MI-1040 Schedule 1, line 18**, Subtractions from Income.

- A. If you purchased a lump sum contract, you may deduct your lump sum amount including the processing fee.
- B. If you purchased a monthly purchase contract, you may deduct the amount paid on that contract during 2018 (not including fees for late payments or insufficient funds). You should receive a 2018 annual statement from MET specifying this amount.

9. Question

Why do we have to notify corrections to MET prior to February 15, 2019?

Answer

We are required to provide the IRS with the correct earnings information by March 31, 2019 for all beneficiaries with taxable income. Therefore, we need time to research and correct your records if there is an error.

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