The State Education Assistance Authority has determined that certain payments made to families participating in the Disabilities Grant (DGrants) Program and the Education Savings Account (ESA) Program are reportable transactions for purposes of IRS information return reporting. An information return is a document that the State must use to notify the IRS about such transactions. Accordingly, certain DGrants and ESA payments will be reported by SEAA to the IRS on a Form 1099-G.

**Included on Form 1099-G.** Any portion of the DGrants or ESA grant funds spent by a parent on qualifying expenses other than tuition and required fees will be reported on the Form 1099-G. For ESA recipients, only those funds actually spent by the parent in the calendar year will be reported. SEAA will report these funds to the IRS in January following the given calendar year. The parent applicant will receive the 1099-G in January to document the funds reported.

**ESA State Tax Deduction.** Please be aware that North Carolina General Statute 105-153.5(b)(12) provides that, effective beginning with the 2018 tax year, “the amounts deposited during the taxable year to a personal education savings account” as part of the ESA Program “may be deduct[ed] from the taxpayer’s adjusted gross income.” Therefore, ESA funds reported on the Form 1099-G may be deducted from adjusted gross income **for North Carolina income tax purposes** on a Form D400 (in Schedule S, Part B, Line 13 entitled “Other deductions from federal adjusted gross income”), but **only if those ESA funds were included in federal adjusted gross income on your individual federal tax return.** This does not have any determinative effect on whether ESA Funds need to be included as income for federal income tax purposes on the individual’s Form 1040.

**Taxable Income.** Whether or not reported DGrants and ESA grant funds should be included as taxable income on your individual federal income tax return is a distinct question from whether SEAA has an obligation to report them to the IRS. **Please consult your tax professional for advice and guidance on how to address information reported on the Form 1099-G in your tax return. SEAA staff are not able to provide tax advice.** “IRS Publication 970 Tax Benefits for Education” may provide additional guidance for you and your tax preparer.

*Nothing in this document should be construed to supersede the Program Statute, Program Rules or other Program polices. In addition, these policies do not represent an exhaustive list of all Program rules; rather these policies are set forth to provide a broad overview of the Program. See the Program Rules and Statutes on each Program’s [website](#) for more details.*