

CollegeCounts 529 Fund – Tax Q & A

1. What is the Alabama state income tax deduction for contributions to the CollegeCounts 529 Fund?

Contributions to the CollegeCounts 529 Fund are Alabama tax deductible up to:

- \$5,000 per Alabama taxpayer;
- \$10,000 for married Alabama taxpayers filing a joint return where both taxpayers are making such contributions.

This deduction is allowed as an adjustment to income on the Alabama income tax return for contributions made to the CollegeCounts 529 Fund (or to the PACT program which is closed to new investors).

2. Does each taxpayer have to write a check to qualify for the \$10,000 tax deduction?

They may, or the taxpayers may write one check from a joint checking account.

3. Can a non-Account Owner make a contribution to the CollegeCounts 529 Fund and qualify for the \$5,000 or \$10,000 Alabama state income tax deduction?

Yes, the deduction may be claimed by any Alabama taxpayer making such contribution to a CollegeCounts 529 Fund account on behalf of another individual.

4. What are the Alabama state income tax consequences when rolling an out-of-state 529 plan into the CollegeCounts 529 Fund?

You can roll funds from an out-of-state 529 into the CollegeCounts 529 Fund and no portion of the rollover is taxable. Additionally, see considerations in Question 6.

5. Can I claim the Alabama state income tax deduction for the rollover contribution from another State 529 plan?

Yes, a rollover into the CollegeCounts 529 Fund can be deducted. The full amount rolled over can be deducted subject to the \$5,000 or \$10,000 annual maximum.

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6. What are the federal tax considerations when rolling an out-of-state 529 plan into the CollegeCounts 529 Fund?

IRS Publication 970 provides in summary that the rollover is not taxable if it is rolled over for the benefit of the same beneficiary or for the benefit of a member of the beneficiary's family (including the beneficiary's spouse). The rollover into the CollegeCounts 529 Fund must occur within 60 days after the date of the distribution from the out-of-state 529 plan. Additionally, only one rollover is allowed within 12 months of a previous transfer to any 529 plan for the same beneficiary. IRS Publication 970 is available on the CollegeCounts website under the Resources tab - "Tax Center".

7. Do "reward" contributions from the CollegeCounts 529 Rewards Visa Card qualify for the Alabama state income tax deduction?

Yes, the contributions made from the Rewards Visa Card will qualify for the deduction.

8. What is the deadline to make a contribution to claim the annual State tax deduction?

If mailed, a postmarked date of December 31. Online contributions can be made up until 11:59 p.m. central time on December 31.

9. Are CollegeCounts 529 Fund withdrawals for qualified college expenses exempt from Alabama state income tax?

Yes, qualified withdrawals are exempt from Alabama state income tax.

10. If a non-qualified withdrawal is made from the CollegeCounts 529 Fund, what are the tax consequences?

The earnings portion of a non-qualified withdrawal is includible in the income of the Account Owner or Beneficiary for federal and Alabama state income tax purposes. In addition, a 10% federal tax penalty applies.

Recapture Provision - Alabama law provides the tax deduction for contributions to the CollegeCounts 529 Fund to encourage saving for college. However, if the monies are not used for qualifying college expenses, the tax benefit is disallowed through a recapture provision. If contributions to the CollegeCounts 529 Fund were claimed as an Alabama income tax deduction,

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the amount of the non-qualified withdrawal, plus 10% of the amount withdrawn, must be added back to the income of the person who made the contribution to the CollegeCounts 529 Fund and received the tax benefit. The amount that is added back is only up to or equal to the total amount of contributions made to the CollegeCounts 529 Fund that were claimed as a tax deduction. It is the account owner's responsibility to notify those persons contributing to the CollegeCounts 529 Fund of non-qualified withdrawals.

Please consult your tax advisor.

The tax information contained herein is a summary and is not intended to be complete. Union Bank and the Alabama Treasurer's office do not render tax or legal advice. This material was not intended or written for – and cannot be used by – any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws. Each taxpayer should seek advice, based on their particular circumstances, from a tax advisor.

If you or your beneficiary is not an Alabama resident, consider whether your home state or the home state of your designated beneficiary offers a qualified tuition program that provides a state tax deduction or other benefits to residents who invest in that program.