

Alabama CollegeCounts 529 Fund

Frequently Asked Q&A's

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

- A.** The amount contributed by an Alabama taxpayer during a tax year is deductible from Alabama income in an amount not to exceed \$5,000 for a single return or \$10,000 for a joint return for that tax year (see following Q&A). If you also contribute to another Alabama 529 account, your maximum total deduction on *all* contributions is still \$5,000 per year (\$10,000 for married couples filing jointly). *Rollovers to another state's 529 plan or nonqualified withdrawals may be subject to recapture.*

Q. I understand that under Alabama Income Tax Law an amount up to \$10,000 for taxpayers filing Married filing Joint can be deducted on your Alabama tax return if you contribute to a qualifying Alabama 529 Plan, but does each taxpayer have to write a check for \$5,000, or is one check for \$10,000 from either spouse acceptable?

- A.** The taxpayers may write one check for \$10,000 that is from a joint checking account.

Q. Are Alabama CollegeCounts 529 Fund qualified withdrawals exempt from Alabama income tax?

- A.** Yes, the withdrawals are exempt under Alabama income tax.

Q. What is a non-qualified withdrawal from an Alabama CollegeCounts 529 Fund account?

- A.** A non-qualified withdrawal is one that is not used for qualified college education expenses. A qualified withdrawal pays for higher education expenses.

Q. If I roll my money from a qualified 529 plan into the Alabama CollegeCounts 529 Fund, is the money exempt from Alabama taxes?

- A.** Earnings would not be taxed as long as the earnings remain in the qualifying plan, but would be taxed if a non-qualified withdrawal is made.

Q. Is a rollover from an out-of-state qualified 529 plan into the Alabama CollegeCounts 529 Fund by an individual that files a joint Alabama State income tax return eligible for an Alabama State income tax deduction of up to a \$5,000 or \$10,000?

- A.** An Alabama taxpayer filing jointly is eligible for an Alabama State income tax deduction of up to \$10,000 for rollover contributions to the Alabama CollegeCounts 529 Fund.

Q. If I roll \$7,500 into the Alabama CollegeCounts 529 Fund (contributions/basis equals \$6,000 and the earnings portion equals \$1,500), can I deduct the full \$7,500 on my tax return or only the amount I contributed?

A. The full amount contributed into the Alabama CollegeCounts 529 Fund can be deducted up to \$5,000 per taxpayer. If you file Married filing Joint on your tax return, the maximum amount of \$10,000 can be deducted.

Q. When rolling over an out of state 529 plan to the Alabama CollegeCounts 529 Fund, is the roll over into the Alabama CollegeCounts 529 Fund (both the contributions and earnings portion) exempt from any current year Alabama income tax?

A. The rollover is exempt from Alabama income tax.

Q. If I contribute to the Alabama 529 Program, take an Alabama state income tax deduction for the contributions to the Alabama 529 Program, and then roll the funds out of the Alabama 529 Program into an out-of-state 529 Plan what are the Alabama state income tax consequences of the “rollover out”?

A. The amount, up to the amount the taxpayer previously deducted on their Alabama tax returns, would be added back to the taxpayer’s Alabama return, plus a 10% penalty.

Q. Does Alabama income tax law recapture previously deducted contributions when withdrawing money from my Alabama CollegeCounts 529 Fund for non-qualified reasons?

A. Yes, the amount withdrawn is added back to the contributing taxpayer’s return, plus a 10% penalty.

Q. What are the tax consequences on 529 plans that are purchased outside of Alabama?

A. No deduction would be allowed on your Alabama income tax return, and the income would be reported once it is withdrawn or distributed from that other state’s plan.

Q. If the money from my Alabama CollegeCounts 529 Fund is used to pay for my son’s expenses at an out of state college, will it be considered taxable?

A. No, the money is not taxable as long as the money is used to pay for qualified higher education expenses.

Q. Is the money from my " Florida 529 Savings Plan" taxable if it is used to pay for my son's higher education expenses?

A. Yes, once the withdrawal is made, it would be taxable on your Alabama income tax return.

Q. Is a contribution to the Alabama CollegeCounts 529 Fund with a December 2010 postmark deductible on my 2010 Alabama tax return, or does it have to be received by the plan before December 31st to be deductible on my Alabama tax return?

A. The postmark date will be accepted as the date of the contribution, as long as it is on or before December 31st. The contribution does not have to be received by the plan on or before December 31st.

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An investor should consider, before investing, whether the investor's or designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's 529 plan. Investors should consult a tax advisor.

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