CollegeCounts℠
Alabama's 529 Fund

IMPORTANT 529 Tax Law Changes

As previously communicated with your December 31, 2015 quarterly account statement and on the CollegeCounts web site – several changes to the rules governing 529 plans were enacted in late December 2015. The IRS has now provided additional guidance regarding the "Computation of Earnings" for 2015 tax reporting purposes. These changes are described below, and they are effective as of the beginning of 2015.

1. **Computation of Earnings** – multiple accounts with the same account owner and beneficiary are no longer required to be aggregated for tax reporting purposes. This change impacts account owners (i) with multiple accounts in CollegeCounts, (ii) for the same beneficiary, (iii) who had a withdrawal from one or more of those accounts in 2015, (iv) which was used for a nonqualified purpose, This change impacts how the earnings portion of that non-qualified withdrawal is calculated, and how the 1099-Q reports such information.

    - **Transition Relief**. For calendar year 2015, the Treasury Department and the IRS are providing transition relief for the computation of earnings in connection with non-qualified withdrawals from 529 accounts. Based on this relief, CollegeCounts and many other 529 plans, calculated and reported the earnings in connection with non-qualified withdrawals for 2015 on an aggregated basis.

      If you are an account owner (i) with multiple accounts in CollegeCounts, (ii) for the same beneficiary (iii) who had a withdrawal from one or more of those accounts in 2015 (iv) which was used for a nonqualified purpose, and you would prefer to have earnings computed for 2015 without aggregation, you may request a revised 2015 Form 1099-Q from CollegeCounts. Please be aware that a request for a corrected 2015 Form 1099-Q does not extend the due date for filing individual income tax returns for 2015.

2. **Qualified Expenses Expanded** - effective for taxable years beginning after December 31, 2014, the definition of qualified higher education expenses is expanded to include: expenses for the purchase of any computer and any related peripheral equipment, computer software, or Internet access and related services, if such equipment, software, or services are to be used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible educational institution.

3. **Special Rule for Contributions of Refunded Amounts -** refunds of any qualified higher education expenses from an eligible educational institution are excludible from gross income if recontributed within 60 days (after the date of such refund) back into the 529 account. This provision is effective with respect to refunds of qualified higher education expenses after December 31, 2014 but only to the extent that such refunds are re-contributed to a qualified tuition program within 60 days of the date of the refund, or within 60 days of December 18, 2015, whichever is later. Thus, amounts refunded in 2015 before December 18, 2015, needed to be recontributed no later than February 16, 2016.

PLEASE review the applicability of each of these changes with your tax professional.

Thank You for utilizing CollegeCounts.

TREASURY DEPARTMENT ALABAMA

Offered by the State of Alabama