

4TH QUARTER 2018

## Important 2018 Tax Information

As you begin to prepare your 2018 tax return, here are some important tax-related reminders:

### Alabama Tax Deduction

Alabama taxpayers can take advantage of the Alabama state income tax deduction for contributions made on or before December 31st 2018. Individuals can deduct up to \$5,000 and married couples filing a joint return can deduct up to \$10,000 if both parties made contributions.<sup>1</sup>

Contributions received in the mail in early January 2019 which had a 2018 postmark were invested on the date received with a description of "Prior Year Contribution". Please review your transaction history at **CollegeCounts529.com** for any "Prior Year" contributions that can be included for 2018 tax deduction purposes.

It is our understanding that the full amount of a rollover from an out-of-state 529 program can be deducted on an Alabama Tax Return up to \$5,000 for individuals or \$10,000 for those married and filing a joint return.

### 2018 Withdrawals

Tax Form 1099-Q will be issued prior to February 1, 2019 for any withdrawals requested from CollegeCounts. The 1099-Q is issued to the Account Owner for any distributions that were paid to the owner. The Beneficiary will receive the 1099-Q for any distributions payable to the Beneficiary or directly to a college. The forms will be mailed to the recipient and will be available to the Account Owner via their secure online access at **CollegeCounts529.com**.

We recommend that you keep the documentation of your qualified expenses and IRS Form 1099-Q with your tax paperwork.

The earnings portion only of a non-qualified withdrawal is subject to federal income tax, a 10% federal tax penalty, and Alabama state income tax.

We recommend that you discuss any tax-related questions with your tax professional for guidance.

### Gift Tax Return (IRS Form 709)

If you made large gifts (over \$15,000) to a CollegeCounts account in 2018, please discuss IRS Form 709 with your tax professional. It is our understanding that Form 709 must be filed (whether or not any gift tax is ultimately due) any time a gift of over \$15,000 is made to someone other than your spouse.

### American Opportunity & Lifetime Learning Credits

If you are paying for college expenses, be sure to discuss with your tax professional the best way to coordinate the various tax benefits. It is our understanding that you can take advantage of an American opportunity or lifetime learning credit in the same year a tax-free distribution is made from a 529 account as long as the same expenses aren't used for both benefits. This means that after the beneficiary reduces qualified education expenses by tax-free educational assistance, he or she must further reduce them by the expenses taken into account in determining the credit. Please review IRS Publication 970 (found at **IRS.gov**) for more information.

### Recontribution of College Refunds

If a beneficiary receives a refund of qualified higher education expenses from an eligible educational institution, the amount of the refund will not be subject to federal income tax to the extent it is recontributed to a 529 plan account for the same beneficiary, but only to the extent such recontribution is made no later than sixty (60) days after the date of such refund and does not exceed the refunded amount. Be sure to discuss any college refunds with your tax professional.

Additional tax information is available on the "Tax Center" at **CollegeCounts529.com**, and also at **IRS.gov** and **Revenue.Alabama.gov**.



## CollegeCounts Scholarship

Applications for the CollegeCounts scholarship are now being accepted through February 28, 2019. Any Alabama student who intends to pursue their higher education at an Alabama college and who will be a first-time college freshman in fall 2019 is encouraged to review the eligibility requirements and apply at [treasury.alabama.gov/collegecounts-scholarship](http://treasury.alabama.gov/collegecounts-scholarship).

## CollegeCounts Receives Silver Medal for 2nd Straight Year!

CollegeCounts is proud to have received a Silver Medal rating from Morningstar in October 2018 for the second straight year. The following is what Morningstar had to say about the program in their annual review of 529 plans nationwide:

*“Alabama’s CollegeCounts 529 Fund remains an exceptional plan, thanks in large part to multiple layers of oversight.”*

*“The age-based portfolios and six static balanced portfolios invest in straightforward, high-quality strategies.”*

An investor should consider the investment objectives, risks, and charges and expenses associated with municipal fund securities before investing. This and other important information is contained in the fund prospectuses and the CollegeCounts 529 Fund Program Disclosure Statement (issuer’s official statement), which can be obtained by calling 866.529.2228 and at [CollegeCounts529.com](http://CollegeCounts529.com) and should be read carefully before investing. You can lose money by investing in a portfolio. Each of the portfolios involves investment risks, which are described in the Program Disclosure Statement. An investor should consider, before investing, whether the investor’s or designated beneficiary’s home state offers any state tax or other benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state’s 529 plan. Investors should consult a tax advisor.

The CollegeCounts 529 Fund is a qualified tuition program under Section 529 of the Internal Revenue Code that is offered by the State of Alabama, administered by the Board of Trustees of the ACES Trust Fund (the “Trust” and plan issuer).

<sup>1</sup> Individuals who file an Alabama state income tax return are eligible to deduct for Alabama state income tax purposes up to \$5,000 per tax year (\$10,000 for married taxpayers filing jointly if both contribute) for total combined contributions to the Plan and other State of Alabama 529 programs. The contributions made to such qualifying plans are deductible on the tax return of the contributing taxpayer for the tax year in which the contributions are made. In the event of a Nonqualified Withdrawal from the Plan, for Alabama state income tax purposes, an amount must be added back to the income of the contributing taxpayer in an amount of the Nonqualified Withdrawal plus ten percent (10%) of such amount withdrawn. Such amount will be added back to the income of the contributing taxpayer in the tax year that the Nonqualified Withdrawal was distributed. Please consult with your tax professional.

*“...the plan still offers an impressive selection of individual options for investors to create custom portfolios.”*

*“The lineup now includes a mix of 25 passive and active strategies managed by well-regarded investment firms. Vanguard runs the low-cost passive options, while solid strategies from T. Rowe Price, DFA, and Dodge & Cox are among the active options.”*

*“Alabamians’ \$5,000 (single) or \$10,000 (joint) income tax deduction on contributions gives residents little reason to look elsewhere. The plan also deserves a look from nonresidents, particularly do-it-yourselfers.”*

Since 2012, ratings for 529 plans have used the same scale as the Morningstar Analyst Rating for mutual funds. Both Analyst Rating methodologies consider the same five factors to arrive at the final rating, though the 529 ratings reflect the quality of the entire plan – not a single investment, as is the case for the fund rating. To arrive at an Analyst Rating for 529 plans, analysts consider Process, People, Parent, Performance, and Price.\*

## Long-Term Investing

The markets have experienced fluctuations and volatility over the last several months. Especially during periods of fluctuations, we encourage investors to remain focused on their long-term investment goals. Make sure your investment option is one that you have selected with your long-term investment objectives and time horizon in mind. When you invest with long-term goals in mind, some fluctuations may be expected to occur. Don’t be tempted to chase market returns. Review your investments periodically to ensure they continue to meet your long-term objectives.

\*The Morningstar Analyst Rating™ is not a credit or risk rating. It is a subjective evaluation performed by Morningstar’s manager research group, which consists of various Morningstar, Inc. subsidiaries (“Manager Research Group”). In the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission. The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark, or in the case of exchange-traded funds and index mutual funds, a relevant peer group, over the long term on a risk-adjusted basis. They consider quantitative and qualitative factors in their research, and the weight of each pillar may vary. The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. A Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group’s conviction in a fund’s prospects for outperformance. Analyst Ratings ultimately reflect the Manager Research Group’s overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months. For more detailed information about Morningstar’s Analyst Rating, including its methodology, please go to [global.morningstar.com/managerdisclosures/](http://global.morningstar.com/managerdisclosures/). **The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause Analyst expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund.** © 2018 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.