

## **CollegeCounts 529 Fund Program Disclosure Statement**

Supplement dated July 1, 2021 to the  
Program Disclosure Statement dated July 1, 2020

This supplement (the “Supplement”) describes important changes affecting the CollegeCounts 529 Fund (the “Plan”). The Program Disclosure Statement dated July 1, 2020 (“Program Disclosure Statement”), is hereby amended by this July 1, 2021 Supplement as set forth below. Except as amended herein, the Program Disclosure Statement remains in full force and effect. Unless otherwise defined herein, capitalized terms used in this Supplement shall have the meanings assigned in the Program Disclosure Statement. In the event of a conflict between the terms of the Program Disclosure Statement and the terms of this Supplement, the terms of this Supplement shall control.

The following provisions are added to the Program Disclosure Statement:

❖ **Name change and expanded scope of expenses payable under the Plan**

Effective July 1, 2021 the state of Alabama amended Section 16-33C-3 and 16-33C-10 of the Code of Alabama 1975, to revise the name of the ACES Program from the Alabama College Education Savings Program to the Alabama *Comprehensive* Education Savings Program and to clarify the meanings of certain terms under federal law. Pursuant to the legislation, the ACES Program is revised to clarify that qualified higher education expenses of designated beneficiaries shall have the meanings ascribed to such terms under Section 529 of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), or other applicable federal law.

Accordingly, the Program Disclosure Statement is hereby supplemented as follows:

❖ **Name Change**

All references in the Program Disclosure Statement to the Alabama College Education Savings Program shall now be referred to as the Alabama Comprehensive Education Savings Program.

❖ **Update to Qualified Withdrawals Language**

The description of “Qualified Withdrawals” on page 5, 6 and 10 and the language in the section “What Constitutes a Qualified Withdrawal” on page 34 is hereby updated as follows:

Withdrawals from a Plan account used to pay for a Designated Beneficiary’s Qualified Higher Education Expenses (as defined in Section 529 of the Internal Revenue Code) are Qualified Withdrawals and include:

- tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a Designated Beneficiary at an eligible educational institution;
- expenses for room and board (with certain limitations) incurred by the Designated Beneficiary who are enrolled at least half-time;
- expenses for the purchase of computer or peripheral equipment, computer software, or Internet access and related services, if such equipment, software, or services are to be used primarily by the Designated Beneficiary during any of the years the Designated Beneficiary is enrolled at an eligible educational institution;
- expenses for special needs services in the case of a special needs beneficiary which are incurred in connection with such enrollment or attendance;
- expenses for fees, books, supplies, and equipment required for the participation of a Designated Beneficiary in an apprenticeship program registered and certified with the Secretary of Labor under section 1 of the National Apprenticeship Act;

- up to a lifetime maximum of \$10,000 paid as principal or interest on any qualified education loan of the Designated Beneficiary or a sibling of the Designated Beneficiary. A sibling includes a brother, sister, stepbrother, or stepsister. For purposes of the \$10,000 limitation, amounts treated as a qualified higher education expense with respect to the loans of a sibling of the Designated Beneficiary are taken into account for the sibling and not for the Designated Beneficiary.
- up to a maximum of \$10,000 per year in tuition expenses, incurred by a Designated Beneficiary, in connection with enrollment or attendance at an eligible elementary or secondary public, private or religious school.

❖ **Update to Income Tax Consequences Language**

The “Income Tax Consequences” section on page 7 is hereby replaced with the following:

**Income Tax Consequences.** Under current law, federal and Alabama state income taxes on investment earnings are tax-deferred while held in an Account, and such earnings are generally free from federal and Alabama state income tax if they are used to pay the Designated Beneficiary’s Qualified Higher Education Expenses. For federal tax purposes if money is withdrawn from your Account, but not used to pay the Designated Beneficiary’s Qualified Higher Education Expenses, the earnings portion (if any) of the withdrawal will be treated as ordinary income to the recipient and generally will also be subject to a 10% federal penalty tax.

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 actually contribute) for total combined contributions to the Plan and other State of Alabama 529 programs during that tax year. 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 (10%) percent 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.

Section 529 permits a rollover from a 529 Plan to a Section 529A ABLE Account to qualify as a non-taxable rollover for federal income tax purposes if made for the benefit of the Designated Beneficiary or a Member of the Family of the Designated Beneficiary and if made after December 22, 2017 and prior to 2026. The State of Alabama Department of Revenue has issued guidance on certain tax matters in the form of FAQs (<https://revenue.alabama.gov/individual-corporate/alabama-529-savings-plan-faq/>). The Plan recommends that you review these FAQs and also seek tax advice from an independent tax advisor before undertaking any such rollover.

❖ **Update to Risk Factors**

In the “Risk Factors” section on page 12 under the heading “Laws Governing 529 Qualified Tuition Programs May Change” the following replaces the risk factor in its entirety:

**Laws Governing 529 Qualified Tuition Programs May Change**

There is a risk that federal and state laws and regulations governing 529 programs could change in the future.

The proposed Federal Treasury regulations that have been issued under Section 529 of the Code provide guidance and requirements for the establishment and operation of the Program but do not provide guidance on all aspects of the Program. Final regulations or other administrative guidance or court decisions might be issued that could adversely impact the federal tax consequences or requirements with respect to the Plan or Contributions to or withdrawals from your Account. In addition, Section 529

or other federal law could be amended in a manner that materially changes the federal tax treatment of Contributions to and withdrawals from your Account.

You should understand that changes in the law governing the federal and/or state tax consequences described in this Program Disclosure Statement might necessitate material changes to the Program and the Plan for the anticipated tax consequences to apply. No representation is made nor assurance given that any such changes may or will be made or that such changes can be made in a manner to allow Account Owners or the Designated Beneficiary to utilize those changes.

Furthermore, the Program has been established pursuant to Alabama law, the Program Rules, the Code, and applicable securities laws. Changes to any of those laws or regulations may also affect the operation and tax treatment of the Program, as described in this Program Disclosure Statement.

❖ **Update to Federal and State Tax Considerations**

The section “What are the State of Alabama Income Tax Consequences of the Plan?” on page 33 is hereby replaced by the following:

**What Are the State of Alabama Income Tax Consequences of the Plan?**

The Alabama state income tax advantages of investing in the Plan are similar to the federal income tax advantages. Any investment earnings on money invested in the Plan will not be subject to Alabama income tax until distributed, and if investment earnings are distributed as part of a Qualified Withdrawal, such earnings are generally free from Alabama state income tax.

In addition, for Alabama state income tax purposes, a deduction is allowed up to \$5,000 per taxpayer per year for contributions. This deduction is increased up to \$10,000 for married taxpayers filing a joint return where both taxpayers make such contributions.

There are also Alabama state income tax disadvantages to an investment in the Plan. If withdrawals are not used to pay for Qualified Education Expenses, then a Nonqualified Withdrawal occurs. In the event of a Nonqualified Withdrawal, the total amount of the withdrawal (including any earnings), plus 10% of the amount withdrawn, is added back to the income of the taxpayer who made the contribution that was subject to the nonqualified withdrawal in the year the Nonqualified Withdrawal is distributed.

❖ **Update to Exhibit B - Tax Information**

“Exhibit B - Tax Information” on page 45, the following language replaces the section entitled “Alabama Income Tax Consequences” in its entirety:

**Alabama Income Tax Consequences**

The undistributed investment earnings in the Plan are exempt from Alabama income tax, and the earnings attributed to an Account will not be includable in the Alabama income of the Account Owner or a Designated Beneficiary until the funds are withdrawn, in whole or in part, from the Account. The Alabama income tax consequences of a withdrawal from the Account will vary depending upon whether the withdrawal constitutes a Qualified Withdrawal or a Nonqualified Withdrawal.

If the distribution constitutes a Qualified Withdrawal from an Account, generally no portion of the distribution is includable in the Alabama income of the Designated Beneficiary or the Account Owner. Similarly, no portion of a Qualified Rollover Distribution is includable in the Alabama income of either the Designated Beneficiary or the Account Owner.

However, to the extent that a withdrawal from an Account is a Nonqualified Withdrawal, then the entire amount of the Nonqualified Withdrawal (including earnings), plus an amount equal to ten (10%) percent of the amount of the Nonqualified Withdrawal is includable in income for Alabama income tax purposes of the taxpayer who made the contribution that was subject to the nonqualified withdrawal in the year

of the withdrawal. This is different from the treatment for federal income tax purposes. No exceptions to the recapture of the amount of the Nonqualified Withdrawal exists for Alabama income tax purposes.

Another difference between the Alabama income tax consequences and federal income tax consequences is that a contribution to the Plan is deductible up to certain limits. 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 who each make contributions) for total combined contributions to the Plan and other State of Alabama 529 programs, during that year. 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.

❖ **Update to Exhibit B - Tax Information**

Under the subsection “Nonqualified Withdrawals” on page 45-46, the following replaces the subsection in its entirety:

**Nonqualified Withdrawals**

To the extent that a withdrawal from an Account is a Nonqualified Withdrawal, the Earnings Portion of such Nonqualified Withdrawal is includible in the federal gross income of the recipient of the withdrawal for the year in which the withdrawal is made. The Contributions Portion is not includible in gross income.

Generally, the recipient of a Nonqualified Withdrawal will also be subject to a federal “penalty tax” equal to 10% of the Earnings Portion of the withdrawal.

There are, however, exceptions to the 10% federal penalty tax if they are:

- 1) Paid to a Designated Beneficiary (or to the estate of the Designated Beneficiary) on or after the death of the Designated Beneficiary.
- 2) Made because the Designated Beneficiary is disabled. A person is considered to be disabled if he or she shows proof that he or she cannot do any substantial gainful activity because of his or her physical or mental condition. A physician must determine that the condition can be expected to result in death or to be of long-continued and indefinite duration.
- 3) Included in income because the Designated Beneficiary received a tax-free scholarship or fellowship grant; Veteran’s educational assistance; employer-provided educational assistance; or any other nontaxable payments (other than gifts or inheritances) received as educational assistance.
- 4) Made on account of the attendance of the Designated Beneficiary at a U.S. military academy (such as the Naval Academy at Annapolis). This exception applies only to the extent that the amount of the distribution does not exceed the costs of advanced education (as defined in Section 2005(d)(3) of Title 10 of the U.S. Code) attributable to such attendance.
- 5) Included in income only because the qualified education expenses were taken into account in determining the American opportunity or lifetime learning credit.

Exception (3) applies only to the extent the distribution is not more than the scholarship, allowance, or payment.