

529 College Savings Plans – Tax Season!

2017 Tax Year

If you contributed to a 529 plan or took a 529 withdrawal last year, you may be eligible to receive a state tax benefit or your may need to reconcile your distributions on your tax filings. This flyer will help you understand when you may need to file a tax form.

529 College Savings Plans

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Does my state offer a state tax benefit?

Not every state offers a state tax benefit. Most states offer a state tax benefit if you contribute to your in-state 529 plan. Some states offer a state tax benefit if you contribute to your in-state or out-of-state plan. Ask your Baird Financial Advisor for a State Tax Deductions Flyer. You can also visit www.savingforcollege.com. On the home page, click on your home state on the state map and then click on plan details next to your selected 529 plan.

Do I need to claim my state tax deduction or credit on my state tax return?

Yes, if your state offers a state tax deduction or credit make sure you claim the deduction or credit on your state income tax form. This is labeled as a miscellaneous line item deduction or credit. Some states have a specific form that you need to file for the year in which you either made a 529 contribution or took a 529 distribution.

What was my deadline to contribute to my 529 for it to qualify as a 2017 contribution?

December 31st is the deadline set by most states for a contribution to be completed in 2017. However, some states such as Wisconsin, allow you to contribute up until April 15th of the following year for the prior year's deduction. Each state sets their tax-year's contribution deadline. Be sure to follow the specific plans deadline requirement. Ask your Baird Financial Advisor for your state's year-end contribution deadline.

I made a contribution to my grandchild's 529 account. Do I need to report this as a gift?

If you made a 529 contribution exceeding \$14,000 in 2017 for any beneficiary (other than to your spouse) you must file IRS Form 709 and elect the 529 5-year gifting. If your gift was \$14,000 or less to any one beneficiary you do not need to file Form 709.

I withdrew funds from my 529 last year and I've received a 1099-Q form. How do I report that?

Federal Income Tax: Even when a Form 1099-Q is received you will not have to report anything on your federal income tax return if either of the two conditions is met:

- **You rolled your 529 plan to another 529 plan.** A withdrawal that is rolled over within 60 days or prior to year-end, whichever comes first, to another 529 plan does not have to be reported.
- **You took a qualified withdrawal.** A withdrawal that is considered a qualified withdrawal does not have to be reported. A qualified withdrawal is generally considered for tuition and fees, books, supplies and computer technology required for enrollment and room and board.

What is Reportable?

If you withdrew funds and did not roll over the 529 distribution in the allotted time or used the distribution for expenses other than what constitutes a qualified higher education expense, then you will have something to report on either your or the beneficiary's Federal income tax return. Refer to IRS Publication 970 – Tax Benefits for Education on www.irs.gov for guidance.

Any non-qualified withdrawal is subject to ordinary income tax and a Federal 10% penalty on the earnings portion of the withdrawal. Form 5329 – Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts must be filed with the income tax return to report the 10% additional tax.

State Income Tax:

Most states typically follow the Federal tax rules or have federalized rules for 529s. You may need to refer to your own state's income tax rules.

IRS Forms and Publications (Go to www.irs.gov to download forms, instructions and publications.)

IRS Form 709 – United States Gift (and Generation-Skipping Transfer) Tax Return

IRS Form 5329 – Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts

IRS Publication 929 – Tax Rules for Children and Dependents

IRS Publication 970 – Tax Benefits for Education

If you have questions or need more information, please contact your Baird Financial Advisor.

Investors should consider the investment objectives, risks, charges and expenses associated with a 529 Plan before investing. This and other information is available in a Plan's official statement. The official statement should be read carefully before investing.

Depending on your state of residence, there may be an in-state plan that provides tax and other benefits such as financial aid, scholarships and creditor protection that are not available through an out-of-state plan. Before investing in any state's 529 plan, you should consult your tax advisor.