

# Informer

## CollegeCounts Scholarship – APPLY NOW!

February 25th is the deadline to submit an application for the CollegeCounts Scholarship. If you know an Alabama resident who is a current high school senior or will be a first-time college freshman at an Alabama college in fall 2021, make sure they complete their application as soon as possible. CollegeCounts is proud to offer awards of up to \$2,000 for students attending a two-year college or awards of up to \$4,000 for students attending a four-year college or university. Over 300 Alabama students are selected for scholarship awards each year, leading to over \$1 million dollars in scholarships that are paid out for their college expenses. Don't let your future college student miss the opportunity to apply for a scholarship award that can assist with their education expenses. Visit [treasury.alabama.gov/collegecounts-scholarship](http://treasury.alabama.gov/collegecounts-scholarship) to review the eligibility requirements and start an application TODAY!

## MARKET UPDATE

The last year has certainly been unpredictable in a number of ways. Early in the year, shortly after the COVID-19 pandemic began, the markets experienced quite a bit of volatility. Since that time, they have shown very strong performance – even setting records in the 4th quarter for all-time highs. If 2020 has taught us anything, it is that life and the markets can both be unpredictable. We encourage you to review the investment selection for your account periodically to ensure your investment option is one that you are comfortable with even during uncertain times. Rather than chase market performance, focus on your long-term investment goals when selecting the investment option for your account. Having a diversified portfolio that suits your risk tolerance preferences will help you weather periods of market uncertainty. Reach out to your financial advisor for their expertise and guidance with any investment-related questions you might have.

## TAX TIPS

2020 was an unforgettable year that most of us are ready to forget! In the next few months, as you prepare your 2020 tax returns, here are a few reminders about your CollegeCounts account that may help as you complete your tax filings. Visit the "Tax Center" at [CollegeCounts529advisor.com](http://CollegeCounts529advisor.com) for additional information. We also encourage you to visit [IRS.gov](http://IRS.gov) and [Revenue.Alabama.gov](http://Revenue.Alabama.gov). Remember to discuss any tax-related questions with your tax professional.

## STATE INCOME TAX DEDUCTION

Alabama taxpayers may be able to claim a state income tax deduction for contributions they made to CollegeCounts accounts in 2020 up to the \$5,000 individual limit (\$10,000 for married taxpayers filing jointly if both actually contribute)<sup>1</sup>. Rollover contributions from out-of-state 529 programs can also be deducted. It is our understanding that any contributor may be eligible for the state income tax deduction for contributions they made to a CollegeCounts account, even if they are not the account owner. If family members or friends made contributions to your account, remind them to keep the documentation of their contribution and report it when they complete their tax return.

Your 4th Quarter 2020 statement provides "Year-to-Date" contribution information for all contributions received and invested from January 1 – December 31, 2020. The statement can be a good starting point in determining how much you may be able to claim as a deduction. If family members or friends contributed to your account, you will need to subtract their contribution amounts from the "Year-to-Date" total.

If you mailed a contribution with a December 2020 postmark that was not received and invested until January 2021, that contribution will appear on your 1st quarter 2021 statement with a description of "Prior Year Contribution". It is our understanding that a "Prior Year Contribution" received in January 2021 may be eligible for the 2020 state income tax deduction. You may need to add that contribution amount to the year-to-date total found on your 4th quarter statement. We encourage you to review your contribution records carefully when determining the amount of the contributions that may be deductible for your 2020 Alabama state income tax return. You can review your current transaction history by logging into your account at [CollegeCounts529advisor.com](http://CollegeCounts529advisor.com).

## Tax Credits for Education expenses

The American Opportunity Credit or Lifetime Learning Credit may be available to you if you paid college expenses out-of-pocket in 2020. It is our understanding that you can claim the credits in the same year as a tax-free distribution from a 529 account as long as the same qualified expenses are not 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. More detailed information can be found in IRS Publication 970 which can be found at [IRS.gov](https://www.irs.gov). Remember to discuss the credits and your 529 withdrawals with your tax professional to determine the best way to coordinate the various tax benefits that may be available to you.

## Re-Contribution of College Refunds

Refunds from a college can be re-contributed to the 529 account for the same beneficiary. The amount of the refund should not be subject to federal income tax if the re-contribution is made within 60 days of the date of the refund and does not exceed the refunded amount. Due to the pandemic, a number of students received refunds from colleges in 2020. A re-contribution to an account does not change any distributions that were requested from a CollegeCounts account. The full distribution amount will be reported on Tax Form 1099-Q. We recommend that you keep the documentation of the re-contribution with Tax Form 1099-Q and your tax paperwork in the event of future questions.

**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 Advisor Plan Program Disclosure Statement (issuer's official statement), which can be obtained from a financial professional and on [CollegeCounts529advisor.com](https://CollegeCounts529advisor.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 and 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.

<sup>2</sup> Withdrawals used to pay for qualified higher education expenses are free from federal and Alabama state income tax. Qualified higher education expenses include tuition, fees, books, supplies, and equipment required for enrollment or attendance; certain room and board expenses incurred by students who are enrolled at least half-time; the purchase of computer or peripheral equipment, computer software, or Internet access and related services if used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible educational institution; and certain expenses for special needs services needed by a special needs beneficiary. The earnings portion of a non-qualified withdrawal is subject to federal income tax and 10% federal penalty tax. In addition, Alabama provides in the event of a non-qualified withdrawal an amount that must be added back to the income of the contributing taxpayer. The amount to be added back will be the amount of the non-qualified withdrawal plus 10% of the amount withdrawn.

## Gift Tax Returns

It is our understanding IRS Form 709 is required to be filed when a gift of over \$15,000 is made to someone other than your spouse (whether or not any gift tax is ultimately due). A contribution to a CollegeCounts account is considered a gift to the beneficiary named on the account. If you made any large contributions (generally over \$15,000 for Gift Tax purposes) to CollegeCounts in 2020, please review your contributions with your tax professional and work with them to complete any required tax filings.

## Tax Form 1099-Q for Withdrawals

Tax Form 1099-Q will be issued in late January 2021 for withdrawals requested in 2020. It will be mailed to each recipient and will also be available to account owners to access under the "Statements" section of the account portal at [CollegeCounts529advisor.com](https://CollegeCounts529advisor.com). The account owner will receive the 1099-Q for any distributions paid to them. The beneficiary will receive the 1099-Q for any distributions paid to them or paid directly to a college. We recommend you keep all documentation of your qualified expenses<sup>2</sup> and the 1099-Q with your tax paperwork in the event of future questions.

It is our understanding that the earnings portion only of a non-qualified withdrawal is subject to federal income tax and a 10% federal tax penalty. For Alabama state income tax purposes, when a non-qualified withdrawal is requested, 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<sup>2</sup>. If you have questions regarding non-qualified withdrawals and any required tax filings, we encourage you to discuss them with your tax professional.

**NOT FDIC INSURED / NO BANK GUARANTEE / MAY LOSE VALUE**

(except the Bank Savings 529 Portfolio underlying investment)

**Wishing you all the best in the New Year.**

  
**CollegeCounts**  
ADVISOR-GUIDED 529 FUND