Withdrawing From Your 529? Read This First.

[Subhead] Knowing how to maximize your distributions can provide significant advantages to you and your beneficiaries

A 529 is one of the best savings plans you can find anywhere. Not only can it help reduce federal tax, it can, depending upon your state of residence, reduce state income tax as well. Over thirty states, including the District of Columbia, offer residents a full or partial tax deduction or credit for 529 savings plan contributions. A few states even offer a state tax deduction whether you invest in that state's 529 or not.

Assets, however, can accumulate and be withdrawn federally tax-free only if they are used to pay for up to $10,000 of qualified expenses – tuition, fees, room and board and supplies. For non-qualified distributions, such as transportation costs, health insurance and student loans, gains are subject to ordinary income tax and a 10% penalty tax (unless an exemption applies).

There are Three Types of Distributions:

- ✓ **Qualified:** Used for Approved Higher Education Expenses, Free From Federal Income Tax (and Possibly State Income Tax depending on rules)
- ✓ **Non-Qualified:** Subject to income tax and 10% Penalty on the gains portion of the distribution
- ✓ **Non-Qualified But Penalty Exempt:** Subject to income tax but not to penalty.
  Three Penalty Exemptions:
    - Death of the beneficiary
    - Disability of the beneficiary
    - Scholarship, grant or GI Bill money received by the beneficiary

Below are some ways to avoid common pitfalls and to save you the burden of a surprise tax bill.

Search for tax credits

Before you look to bear the entire educational burden for any given school year with a 529, be sure to take advantage of tax credits and deductions specifically intended for educational expenses. Each of these could help bolster the cost of education if the child qualifies:

- ✓ The American Opportunity Credit
    - Income limits to qualify: $90,000 for single filers; $180,000 for joint filers
- ✓ Lifetime Learning Credit

    - Income limits to qualify: $65,000 for single filers, $131,000 for joint filers
- ✓ General deductions for tuition and fees
    - Income limits to qualify: $80,000 for single filers; $160,000 for joint filers

Factor in financial aid

Scholarships, grants or GI Bill money are tax-free financial aid and should be factored in before using a 529. If you didn't factor them in before withdrawing from a 529, consider buying a computer or comparable education expenses to avoid undue taxes.

Coordinate with friends and family

In some cases, a beneficiary could have multiple 529 accounts set up for them. It's important to make sure that all accounts are synchronized to avoid withdrawing too much or too little. Accounts should be monitored for performance and in some cases be centralized by transferring to the parents once the time comes for disbursal.

Transfer it over if necessary

Unforeseen things often can come up in life, whether the initial recipient opts not to go to college or perhaps they receive a full scholarship, the flexibility of a 529 allows the account to be transferred to another kid, family member or even yourself.

Reduce the sting of withdrawing

If for any reason a 529 has to be liquidated (no more eligible candidates to receive the funds, your child decides they're finished with their educational pursuits or you no longer have a need for the account), consider paying it out to the initial recipient to reduce the sting of the tax burden as they may likely be in a lower tax bracket.