

## 4TH QUARTER 2017

### FINAL 2017 TAX REMINDERS

Now that 2017 has come to a close, here are some final tax-related reminders to help as you prepare to file your taxes.

#### Alabama Tax Deduction

Report your 2017 contributions to CollegeCounts on Form 40 to claim the Alabama state income tax deduction. Contributions are deductible up to \$5,000 per tax year (\$10,000 for married taxpayers filing jointly if both contribute)<sup>1</sup>.

#### 2017 Withdrawals

CollegeCounts will mail Form 1099-Q by the end of January. If you requested a distribution in 2017, please watch for the form in the mail. The beneficiary will receive Form 1099-Q for any distributions to the beneficiary or college.

Keep the Form 1099-Q and the documentation of your qualified expenses with your tax paperwork. Withdrawals for qualified higher education expenses of the beneficiary should not need to be reported<sup>2</sup>. The earnings portion of a non-qualified withdrawal would be subject to taxes, a 10% federal tax penalty, and subject to Alabama tax and penalty. Contact your tax professional for assistance.

#### Gift Tax Return (IRS Form 709)

If you made a large gift (over \$14,000) to a CollegeCounts account in 2017, be sure to discuss IRS Form 709 with your tax professional. Generally, IRS Form 709 must be filed (whether or not any tax is ultimately due) any time a gift of over \$14,000 is made to someone other than your spouse.

#### American Opportunity and Lifetime Learning Credits

Make sure to review these credits with your tax professional to determine the best claiming strategy when paying for college. An American opportunity or lifetime learning credit can be claimed in the same year the beneficiary takes a tax-free distribution from a 529 plan, 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. More information is available at [irs.gov](http://irs.gov) (Publication 970).

#### Recontribution of College Refunds

In the case of a Beneficiary who receives a refund of any Qualified Higher Education Expenses from an eligible educational institution, the amount refunded 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. Check with your tax professional for additional details.

### REMOVAL OF VANGUARD INTERMEDIATE-TERM BOND INDEX 529 PORTFOLIO

CollegeCounts provides ongoing monitoring and due diligence for the investment options offered in the plan. Based on that process, the Vanguard Intermediate-Term Bond Index 529 Portfolio will be removed as an Individual Fund Portfolio on February 6, 2018. Current assets invested in the portfolio as well as any future contributions will be transferred to the Vanguard Total Bond Market Index 529 Portfolio. The Vanguard Intermediate-Term Bond Index is only offered as an Individual Fund option, so this change does not impact the Age-Based or Target portfolios.

The removal of the Vanguard Intermediate-Term Bond Index 529 Portfolio will be an automatic change with no action required by Account Owners. Changes made by the plan should not be considered an investment option change for Federal tax purposes. Currently, the IRS allows two investment option changes every calendar year or upon the change of an account beneficiary. If an Account Owner would like to elect a different investment option prior to the automatic change on February 6, 2018, they have the option to utilize a 2018 investment option change for their account.

**Please review the enclosed Program Disclosure Statement Supplement for additional information.**

**INVEST *in*  
WHAT'S NEXT**

COLLEGECOUNTS529.COM | 866.529.2228



Offered by the  
State of Alabama

UBT 529 SERVICES, a division of

**UBT**  
Union Bank & Trust  
Program Manager



## 2018 GIFT TAX LIMIT CHANGE

The IRS has increased the annual gift exclusion amount to \$15,000 beginning January 1, 2018. You may now be able to make a gift up to \$15,000 per year to a beneficiary without incurring any gift tax. Please review the enclosed Program Disclosure Statement Supplement and consult your tax and financial professionals for more information and advice.

## COLLEGECOUNTS SCHOLARSHIP – APPLY TODAY!

Applications for the CollegeCounts scholarship will be accepted until March 1, 2018. Students who will be first-time college freshman during the 2018-2019 school year are encouraged to review the eligibility requirements and apply at [treasury.alabama.gov/collegecounts-scholarship](http://treasury.alabama.gov/collegecounts-scholarship).

## COLLEGECOUNTS EARNs SILVER MEDAL FROM MORNINGSTAR!

CollegeCounts was proud to earn a Silver rating from Morningstar in 2017. The following excerpts are from Morningstar's annual review of the program:

*"Investors can be confident that the multilayered oversight of Alabama's CollegeCounts 529 Fund will keep the plan exceptional."*

*"The age-based portfolios and six static balanced portfolios invest in straightforward, high-quality strategies. Passively managed Vanguard strategies account for six of the seven underlying funds, six of which are Morningstar Medalists – a reflection of analysts' confidence in the funds' future prospects."*

*"The plan also offers an impressive selection of individual options for investors to create customized portfolios. The lineup includes a mix of 26 passive and active strategies managed by well-regarded investment firms. Vanguard runs low-cost passive options across myriad asset classes, 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 use 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; although, 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 five pillars:

- **Process:** Did the plan hire an experienced asset allocator to design a thoughtful, well-diversified glide path for the age-based portfolios? What suite of investment options is offered?
- **People:** What is Morningstar's assessment of the underlying money managers' talent, tenure, and resources?
- **Parent:** Is the program manager a good caretaker of college savers' capital? Is the state managing the plan professionally?
- **Performance:** Have the plan's options earned their keep with solid, risk-adjusted returns over relevant time periods? How is the plan expected to perform going forward?
- **Price:** Are the investment options a good value?

*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.**

**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 or from the plan's website 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 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).

1 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.

2 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.