



GET THE MOST OUT OF YOUR 529 SAVINGS

After years of saving money in a 529 plan, it will soon be time to put those funds to use and pay your first tuition bill. But before you take a withdrawal from your plan, you'll want to make sure you understand how the process works to help ensure you don't lose out on any potential tax benefits, or worse, end up paying a penalty.

Consider these four questions before you take your first withdrawal to maximize the value of your college savings plan.

1

HOW MUCH SHOULD YOU WITHDRAW?

- It's generally a good idea to withdraw the maximum amount that will qualify for tax-free treatment.

- First, calculate your total qualified higher education expenses (QHEE).
 - This includes tuition, fees, books, supplies, computers and related equipment, and any special needs equipment.
 - As of January 1, 2018, up to \$10,000 per beneficiary can also be withdrawn tax-free to pay for tuition at elementary and secondary schools.

- Next, subtract any expenses that were used to generate the American Opportunity credit (AOTC) or Lifetime Learning credit.
 - For example, the AOTC allows parents to claim a tax credit for 100% of the first \$2,000 and 25% of the next \$2000 of a dependent child's college tuition and mandatory fees, for a maximum \$2,500 credit per child.
 - Parents who claim the full \$2,500 must subtract the \$4,000 in expenses used to generate the credit from their QHEE.

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WHEN SHOULD YOU WITHDRAW?

- Withdrawals must be taken in the same calendar year that the qualified expenses are paid.

- If you withdraw money in December, don't wait until January to pay your spring semester tuition.

3

WHO SHOULD YOU PAY?

- Typically, your plan will allow you to choose whether you want to make a payment to the account owner, the beneficiary or the school.
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- Most plans offer payments in the form of checks or ACH deposit, but some are also beginning to offer electronic payments as well.

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WHAT ABOUT SCHOLARSHIPS?

- The 10 percent penalty on non-qualified distributions is waived up to the amount of the tax-free scholarship.
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- However, the earnings portion of the withdrawal will be subject to income tax.