# 10 tips

## for smarter distributions.

### 1. Make withdrawals for only qualified education expenses (QEEs).

These include tuition, room and board (more on this later), books, fees and computers.[1] For K-12, only tuition at qualified schools within Indiana is considered a QEE. QEEs do NOT include travel expenses, test prep and exam fees, application fees, health insurance premiums, fees for fraternities and sororities, or fees to participate in club or intramural athletics.

### 2. Consider who owns the 529 account before making withdrawals.

Many experts advise that withdrawals from accounts owned by grandparents should only be made in a student's last two years. That's because these withdrawals are viewed as untaxed income for the student, and can be considered up to 50% for financial aid eligibility. Conversely, only 5.64% of an account owned by a parent is weighed when considering financial aid.

### 3. Be sure this year's withdrawals are for this year's expenses.

Timing matters, especially when it comes to taxes. Money withdrawn from a 529 must be used to pay for qualified expenses in that same calendar year. Otherwise, taxes and penalties may be assessed. For tuition bills due January 1, clients may consider using other resources, then reimbursing themselves with 529 withdrawals made in the new year, or paying the bill prior to January 1.

### 4. Pay special attention to refunds received from school.

Let's say parents paid the full tuition bill at the start of the semester. Later, the student drops a class. The resulting refund paid back to the student must be accounted for in determining QEEs. Otherwise, the withdrawal amount will exceed QEEs, resulting in tax and penalty, unless the refunded amount is re-contributed to the 529 account within 60 days.

### 5. Don't "double dip" by claiming both the education tax credit and all of the year's qualified 529 expenses.

Claiming the American Opportunity Tax Credit of $2,500 will reduce a beneficiary's qualified education expenses by $4,000. If a client isn't eligible for the tax credit, but plans to claim the Lifetime Learning Credit, qualified 529 expenses can be reduced by as much as $10,000.

### 6. Just as you can withdraw too much too soon, you can also withdraw too little.

The goal, generally speaking, is to "zero out" a 529 account's balance by the time a child graduates. Remember: Any money left after graduation, if withdrawn, is subject to tax and a 10% penalty on earnings. If there's a remaining balance, you can change the beneficiary to a family member (including yourself) for future educational expenses.

### 7. If a student receives a scholarship, 529 withdrawals for non-QEEs can be made up to the amount of the award without a penalty.

Say your client's daughter receives a "full ride" for volleyball. Your client can withdraw an amount equal to the scholarship value without paying a 10% penalty on earnings. Normal taxes would still have to be paid on the earnings portion of the amount withdrawn.

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## 8. When a beneficiary has more than one 529 account, have a plan for spending them down.

Which account do you cash in first? Does it really matter? According to experts, it does. For example, consider exhausting a parent-owned account first before withdrawing from those owned by third parties (i.e., grandparents) to maximize potential financial aid benefits.

## 9. Don't worry about reporting 1099Q amounts on a tax return.

That is, as long as all the distributions and qualified expenses match. Make sure to keep all documentation for qualified 529 expenses.

## 10. Rest assured that you're covered living off campus as much as on.

Room and board are qualified 529 expenses for off-campus housing. However, the qualifying amount cannot exceed what's charged by the institution for living ON campus.[2] For example, if room and board at School X are $10,000 per year, the amount considered as qualified for off-campus living cannot exceed $10,000. Any withdrawal amounts above this would be viewed as non-qualified expenses.

> **"The benefit to fully exhausting the 529 first is you can then delay any needed loans until later on, therefore incurring less interest."**
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> The Wall Street Journal, *The Best Strategy for Spending Down '529' Funds*, Jan. 6, 2019

For more 529 insights, visit **collegechoiceadvisor529.com**, or call **866-485-9419.**

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[1]Earnings on non-qualified withdrawals are subject to federal income tax and may be subject to a 10% federal penalty tax, as well as state and local income taxes. The availability of tax or other benefits may be contingent on meeting other requirements.

[2]As reported by the educational institution in its cost of attendance for room and board.

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**Before you invest, consider whether your or the beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in that state's qualified tuition program.**

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