

5 tips for taking distributions from a 529 plan

Before an investor starts taking distributions from a 529 plan, it's important to understand the mechanics and potential tax pitfalls. Our five tips can help.

529 plans offer many well-known benefits, including generous contribution limits, tax-deferred growth and tax-free distributions to fund qualified education expenses.

But the mechanics of 529 plan distributions can be confusing for account owners. These five tips may help investors avoid unintended tax consequences and, in some cases, even help account owners and beneficiaries take advantage of little-known tax benefits.



1. Many college expenses can be funded tax- and penalty-free — but not all.

Account owners can use earnings tax-free to pay for qualified education expenses at qualified institutions, including tuition, fees, books, computers, room and board. But using earnings for non-qualified expenses may result in taxation plus a 10% federal penalty. Knowing what isn't considered qualified is critical.

2. Scholarships allow account owners to take non-qualified withdrawals penalty-free.

If an account beneficiary receives a scholarship, the 10% federal penalty that would otherwise apply to non-qualified distributions from the account is waived. And there's also some flexibility around how much can be withdrawn each year.

3. The IRS will send a 1099-Q, but that doesn't always mean you owe taxes.

All distributions from a 529 plan result in the generation of a 1099-Q, sent to the recipient of the distribution (either the education institution, the designated beneficiary or the account owner). A tax professional can help the recipient determine whether the withdrawal is considered a qualified distribution and what the tax consequences may be.

4. Be careful how much you withdraw in anticipation of future expenses.

Qualified distributions from 529 plans should be taken in the same taxable year the expense was incurred. But distributions don't need to be taken prior to, or in direct relation to, specific expenses. Account owners can easily reimburse themselves for expenses paid throughout the year with one distribution. But they should be mindful not to withdraw too much money in case expenses do not materialize — excess withdrawals usually can't be put back in the same beneficiary's 529 account.

5. 529A accounts offer special opportunities for people with disabilities and their families.

The Achieving a Better Life Experience (ABLE) Act and 529A accounts now allow individuals with disabilities to take advantage of 529 and 529A account saving strategies. ABLE accounts can be used tax-free to pay for any disability-related expenses. And certain investing strategies can help account owners take full advantage of ABLE accounts, beyond the \$15,000 annual funding limit.

Bottom line

There's a lot of education on how to fund 529 plan accounts — how much to invest, gifting limits, etc. But knowing how and when to take 529 plan distributions can be just as important to participants. And understanding the mechanics and options can make for an easier experience, with fewer tax consequences.

Columbia Threadneedle Investments is a leading global asset manager that provides a broad range of investment strategies for individual and institutional clients. With 450 over investment professionals across 17 countries, we manage \$468 billion* across asset classes. Our global investment team debates and challenges their best ideas to make better decisions, leading to better outcomes for you and your clients.



To find out more, call **800.426.3750**
or visit columbiathreadneedle.com



The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. Actual investments or investment decisions made by CMIA and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be suitable for all investors. Past performance does not guarantee future results, and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.

* In U.S. dollars as of June 30, 2019. Source: Ameriprise Q2 Earnings Release. Contact us for more current data.

Investment products offered through Columbia Management Investment Distributors, Inc., member FINRA. Advisory services provided by Columbia Management Investment Advisers, LLC. Columbia Management Investment Distributors, Inc., 225 Franklin Street, Boston, MA 02110-2804

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.

© 2019 Columbia Management Investment Advisers, LLC. All rights reserved.

CT-MK/**115382 A (10/19)** JMJP/2758429