

Common Questions Surrounding 529 Plan Distributions

You've prepared for this special time when your child heads off to college. Your child has applied and been accepted. Financial aid and scholarships may or may not have been provided, but you saved money ahead of time with a 529 plan. Now it's time to write that tuition check, but before you do make sure you know the answers to some common questions listed below. Using your 529 plan in a nonqualified way could result in unexpected income taxes and penalty. Understanding these rules can help you use your 529 plan as intended.

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| <p>Identifying qualified education expenses</p> | <p><i>What expenses are considered qualified education expenses¹?</i></p> <ul style="list-style-type: none"> • Tuition, fees, books and supplies required for enrollment or attendance at an eligible institution • Computer or peripheral equipment, computer software, or Internet access and related services if it's to be used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible postsecondary school • Room and board are qualified expenses for students who are at least half time <ul style="list-style-type: none"> - If living off campus – reimbursement is limited to the greater of the school's room and board allowance or the actual amount the student would pay for on-campus housing, other limitations apply - If living on campus – no more than the allowance for room and board as determined by the school • Expenses for registered apprenticeship programs • Expenses for qualified student loan repayments for a designated beneficiary or siblings (up to \$10,000 lifetime each, not annual) • Up to \$10,000 per year per beneficiary for tuition at an elementary or secondary public, private, or religious school; state laws may vary |
| <p>Timing your distributions</p> | <p><i>Are there any rules as to when I have to take a distribution to pay a qualified expense?</i></p> <ul style="list-style-type: none"> • You can pay the school directly or reimburse your child or yourself for a bill paid as long as both the distribution from the 529 plan and the payment of the bill occur in the same tax year. <ul style="list-style-type: none"> - If you are receiving financial aid, check the school's financial aid treatment of making direct payments to the school from a 529 plan prior to issuing the check to minimize the possibility of any negative impact on your financial aid award. • Talk with your financial advisor or the 529 plan administrator well in advance of needing the funds so that you understand the withdrawal process and how long it will take to get the funds. |

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| Receiving a scholarship | <p><i>If my child receives a scholarship, is there any benefit to taking a 529 distribution?</i></p> <ul style="list-style-type: none"> • If your child receives a tax-free scholarship or fellowship grant you may take a nonqualified 529 distribution up to the equivalent amount in the same tax year without incurring the 10% penalty on the earnings portion of the distribution; ordinary income taxes would still apply¹ • The exception to the 10% penalty is not available for taxable scholarships or fellowship grants¹ • An alternative consideration would be to leave the funds in the 529 plan and use for future qualified education expenses |
| Claiming education tax credits | <p><i>If I claim the American Opportunity or Lifetime Learning Credit on my tax return am I still able to take a tax-free distribution from the 529 plan?¹</i></p> <ul style="list-style-type: none"> • Yes as long as you are not using the same expenses to qualify for both benefits |
| Receiving refunds from the educational institution | <p><i>I paid for qualified education expenses using my child's 529 plan and now some of it has been refunded. What are my options?</i></p> <ul style="list-style-type: none"> • The funds may be recontributed to that student's 529 plan within 60 days after the date of the refund to avoid the potential for a nonqualified distribution • Consider using those funds to pay for upcoming qualified expenses within the same tax year instead, if applicable |
| Accumulating excess 529 funds | <p><i>My child has completed their education and there are still funds in the 529 plan. What are the options for those excess funds?</i></p> <ul style="list-style-type: none"> • If there is a possibility of further education such as graduate school or other, consider leaving the funds in the 529 plan for the potential of continued tax-deferred growth • Change the beneficiary to an eligible family member¹ • Take a nonqualified distribution. The earnings portion of this distribution is subject to ordinary income tax and a 10% penalty unless an exception to the penalty applies |
| Maintaining receipts for expenses | <p><i>Do I send my receipts to the IRS?</i></p> <ul style="list-style-type: none"> • No. Save receipts with your tax records; IRS may request them later |

¹ See IRS publication 970 and/or contact the eligible institution for more details

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The question and answers above should provide you a good basic knowledge for utilizing the funds you have saved for your child's education in a tax-efficient way. However, there may be many more questions that come up which were not addressed here. Please consult your financial advisor and tax advisor to discuss these or any other questions you may have regarding your situation. We welcome the opportunity to work with you to help you achieve your financial goals.

Wells Fargo Advisors is not a tax or legal advisor. While this information is not intended to replace your discussions with your tax advisor, it may help you to comprehend the tax implications of your investments and plan efficiently going forward.

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