Bright Start Planner

Fourth Quarter 2017

brightstart
Illinois 529 College Savings

Welcome to the Bright Start Planner. Each quarter, this newsletter includes important reminders and tips pertaining to your Bright Start account.

2017 Tax Reminders

Illinois Tax Deduction

If you made a contribution to Bright Start in 2017, don't forget to report your total contributions to claim your Illinois state income tax deduction. Contributions are deductible up to $10,000 per tax year ($20,000 for married taxpayers filing jointly)[1]. Please review the 2017 Schedule M IL-1040 and instructions for filing and reporting information. Make sure to consider the "contributions portion" of any rollover into Bright Start from an out-of-state 529 plan.

2017 Withdrawals

If you requested a withdrawal in 2017, Bright Start will be mailing Form 1099-Q by the end of January. If a withdrawal was payable to the Account Owner, they will receive the Form 1099-Q. For distributions payable to the Beneficiary or the college, the form will go to the Beneficiary.

We recommend that you keep the Form 1099-Q and the documentation of your qualified expenses with your tax paperwork, just in case there are ever any questions about your withdrawals in the future. Generally, distributions are not taxable and do not need to be reported as long as the funds were used to pay for qualified higher education expenses[2] of the named Beneficiary. If the distribution was a non-qualified withdrawal, the earnings portion of the withdrawal is generally taxable and subject to a 10% federal tax penalty and potential recapture of any previously claimed Illinois tax deductions. You should discuss any tax-related questions with your tax professional for further information and advice.

Gift Tax Return (IRS Form 709)

If you made a large gift (over $14,000) to a Beneficiary via a contribution to a Bright Start account in 2017, remember to notify your tax professional and discuss IRS Form 709. 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.

Invest Your Tax Refund

If you will be receiving a state or federal tax refund this year, consider investing all or a portion of the refund with Bright Start. More details are available under the "Tax Center" of our website or by contacting our Customer Care Center.

American Opportunity and Lifetime Learning Credits

Make sure to review the American Opportunity and Lifetime Learning credits with your tax professional to determine the best claiming strategy when paying for college. These credits 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. No double benefits are allowed, according to IRS Publication 970. Generally, the credit is based on adjusted qualified education expenses you pay for yourself, your spouse, or a dependent you claim on your tax return. More information is available at irs.gov (Publication 970).

Recontribution of College Refunds

If a Beneficiary 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.

Bright Start Earns Gold from Morningstar!

"Illinois' Bright Start Direct-Sold College Savings Program stands out as a topnotch plan following a complete overhaul in July 2017. At that time, the state replaced program manager Oppenheimer Funds with Union Bank & Trust and revamped the investment lineup. The state also made additional fee cuts. The new look and lower cost raises the plan's Morningstar Analyst Rating to Gold from Bronze."

— **Morningstar, October 2017**

MORNINGSTAR Gold™ 2017*

Do You Have a 529 Account in Another State?

Consider a rollover to Bright Start to take advantage of Illinois state income tax benefits. A same-beneficiary rollover can be requested once every 12 months or if the beneficiary is changed. After you've reviewed your out-of-state plan provisions and determined Bright Start is right for you, follow this easy process:

- Complete the Rollover Form available at BrightStartSavings.com/forms
- Obtain a Medallion Signature Guarantee on the form
- Attach a copy of the latest statement from your out-of-state 529 plan
- Mail the form to Bright Start, and let us handle the rest

When you complete a rollover from an out-of-state 529 plan, your contributions amount (not the earnings portion) is eligible for the Illinois state income tax deduction of up to $10,000 per tax return ($20,000 if married filing jointly).

Update Your Contact Information

Please take a moment to log in to your account and review your address and contact information. We want to ensure we have the most current contact information for your accounts. If you have requested a distribution from your account, IRS Form 1099-Q will be mailed to you in January. To avoid any delays, please confirm your contact information as soon as possible.

2018 Gift Tax Limit Change

The IRS has increased the annual gift exclusion amount to $15,000 beginning January 1, 2018. You are now able to make a gift up to $15,000 per year to a beneficiary without incurring gift tax. Please consult your tax and financial professionals for more information and advice.

[1]An individual who files an individual Illinois state income tax return will be able to deduct up to $10,000 per tax year (up to $20,000 for married taxpayers filing a joint Illinois state income tax return) for their total, combined contributions to the Bright Start College Savings Program, the Bright Directions Advisor-Guided 529 College Savings Program, and CollegeIllinois! during that tax year. The $10,000 (individual) and $20,000 (joint) limit on deductions will apply to total contributions made without regard to whether the contributions are made to a single account or more than one account. The amount of any deduction previously taken for Illinois income tax purposes is added back to Illinois taxable income in the event an Account Owner takes a Nonqualified Withdrawal from an Account or if such assets are rolled over to a non-Illinois 529 plan. If Illinois tax rates have increased since the original contribution, the additional tax liability may exceed the tax savings from the deduction.

[2]Withdrawals used to pay for qualified higher education expenses are free from federal and Illinois state income tax. 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.

The Bright Start Direct-Sold College Savings Program is sponsored by the State of Illinois and administered by the Illinois State Treasurer, as Trustee. Union Bank & Trust Company serves as Program Manager. Investments in the Bright Start Direct-Sold College Savings Program are not guaranteed or insured by the State of Illinois, the Illinois State Treasurer, Union Bank & Trust Company, the Federal Deposit Insurance Corporation, or any other entity.

An investor should consider the investment objectives, risks, and charges and expenses before investing. This and other important information is contained in the Bright Start Direct-Sold College Savings Program Disclosure Statement, which can be obtained at BrightStartSavings.com 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. Before you invest, consider whether your or the beneficiary's home state offers any state tax or other benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in that state's 529 plan.

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