



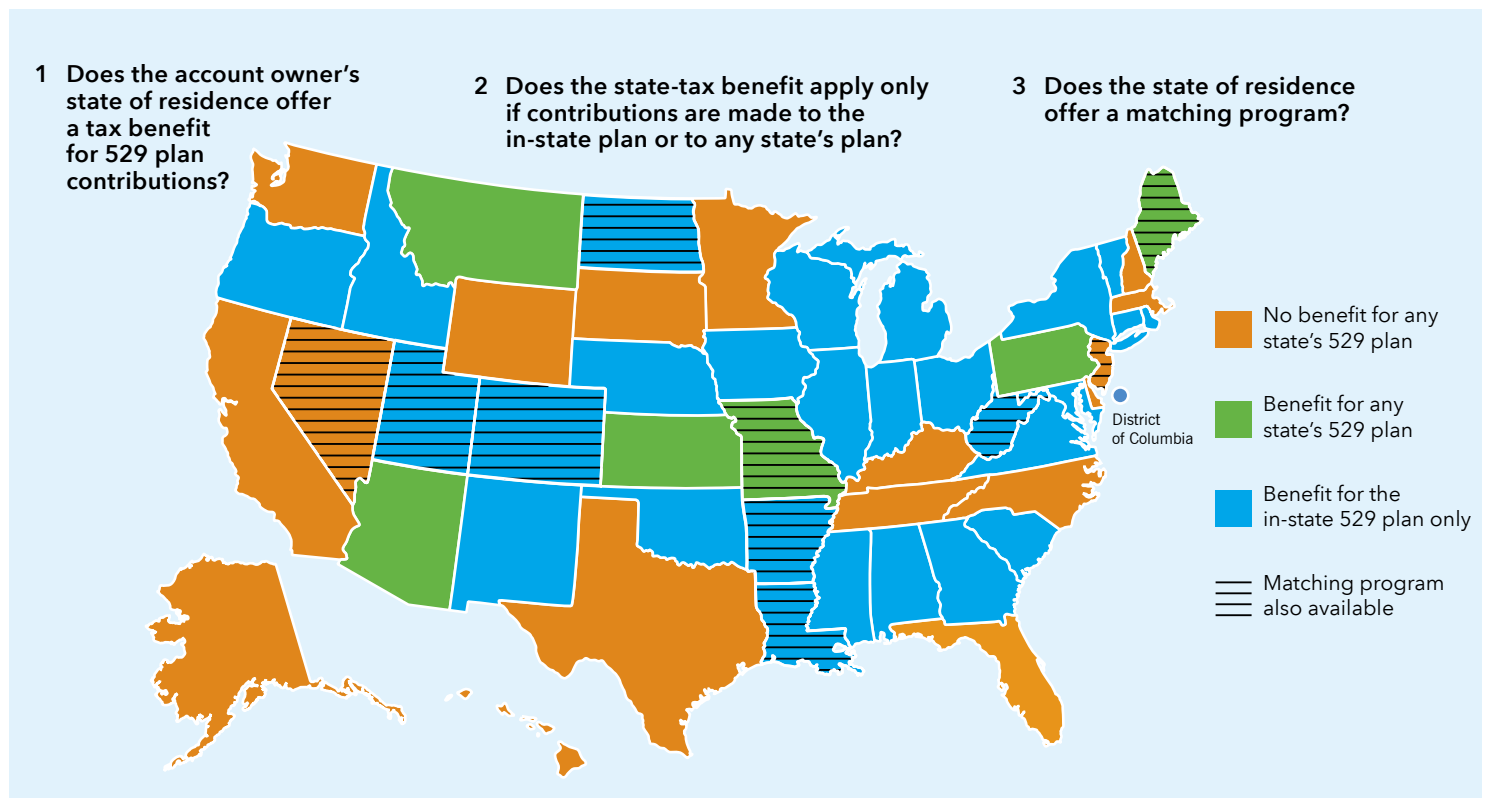
AMERICAN FUNDS®

From Capital Group

In State or Out of State?
529 College Savings Plan
Tax Guide

A Guide to Potential State Tax and Matching Benefits for 529 College Savings Plan Clients

To select the right 529 plan, you need to know what benefits are available and how they apply to each client’s circumstances. This guide contains a summary of state tax and matching benefits for 529 plan contributions so you can make an “apples to apples” comparison.



Calculating your state's benefits

- If the state offers a tax benefit, see the table on pages 3-5.
- If the state offers a matching program, see the table on page 6.

The *It's Not Just About Taxes* section on page 2 lists key criteria for comparing different 529 plans regardless of your state benefits.

For financial professionals only.

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Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

It's Not Just About Taxes

State-tax benefits and matching programs are attractive, but other factors may be equally important when selecting a 529 plan for your clients. Over the long term, other benefits can outweigh state tax and matching benefits.

- **Superior long-term investment results.** Investments with a track record of participating in rising markets and mitigating volatility during down periods have the potential to provide superior results.
- **Low expenses.** Differences in plan expenses may seem small, but they add up over time.
- **Diverse investment options.** Look for age-based funds, fund-of-funds and individual fund offerings that match your client's needs and your preferences.
- **Third-party evaluations.** Ratings agencies such as Morningstar offer an objective analysis of 529 college savings plans.
- **Service.** Establishing and administering 529 plan accounts can be challenging. An investment company that demonstrates a commitment to customer service will make accounts easier to manage.
- **Stability.** A solid relationship between state sponsor and investment manager can mean continuity and stability for higher education savers.

Making the Choice

Considering a state's tax and matching benefits is important, but after comparing plans you may determine that the underlying attributes of an out-of-state 529 plan more than offset those benefits.

Calculating State-Tax Deductions

The data in the table on the next three pages (example below) can help you determine the tax benefits for your client's state of residence.

Maximum allowable annual contribution

Shows the maximum annual contribution deductible from one's state taxes.

Important state-specific tax issues

Answers some common questions relating to each state's treatment of 529 college savings plans.

The hypothetical tax benefit

Shows the hypothetical state-tax benefit of a \$10,000 annual 529 plan contribution.

State	Maximum contribution deduction (I: individual; J: joint)	Deduction limited to account owner contribution only?	Subject to recapture ¹	Carryforward allowed ²	2014 top marginal tax rate	Hypothetical 2014 tax benefit for a \$10,000 investment (I: individual; J: joint) ³
Illinois	I: \$10,000/tax return J: \$20,000/tax return	No	Yes/Yes	No	5.00%	I/J: \$500
Indiana	I/J: \$1,000 credit/tax return ¹¹	No	Yes/Yes ¹²	No	3.40%	I/J: \$1,000
Iowa	I: \$3,098/beneficiary ¹³ J: \$6,196/beneficiary ¹³	Yes	Yes/Yes	No	8.98%	I: \$278 J: \$556
Kansas	I: \$3,000/beneficiary ¹⁴ J: \$6,000/beneficiary ¹⁴	No	Yes/No	No	4.80%	I: \$144 J: \$288
Kentucky	No deduction	—	—	—	—	—
Louisiana	I: \$2,400/account ¹⁵ J: \$4,800/account ¹⁵	Yes	Yes/No	No	6.00%	I: \$144 J: \$288
Maine	I/J: \$250/beneficiary ¹⁶	No	No/No	No	7.95%	I/J: \$20
Maryland	I: \$2,500/beneficiary ¹⁷ J: \$5,000/beneficiary ¹⁷	Yes	Yes/No	10 years	5.75%	I: \$144 J: \$287
Massachusetts	No deduction	—	—	—	—	—
Michigan	I: \$5,000/tax return ¹⁸ J: \$10,000/tax return ¹⁸	No	Yes/No	No	4.25%	I: \$212 J: \$425
Minnesota	No deduction	—	—	—	—	—
Mississippi	I: \$10,000/tax return ¹⁹ J: \$20,000/tax return ¹⁹	No	Yes/No	No	5.00%	I/J: \$500
Missouri	I: \$8,000/tax return ²⁰ J: \$16,000/tax return ²⁰	Yes	Yes/No	No	6.00%	I: \$480 J: \$600

Potential State Tax and Matching Benefits

A State-By-State Summary of 529 Plan Tax Benefits

Deductions/credits for 529 plan contributions

This table is designed to help you determine what state income tax deductions or credits, if any, are available for clients who invest in a 529 savings plan. Prepaid plans are not represented, and the footnotes below the table provide information on factors that may substantially modify – or possibly limit – the tax benefits in the chart, so please read all applicable footnotes.

State	Maximum contribution deduction (I: individual; J: joint)	Deduction limited to account owner contribution only?	Subject to recapture ¹	Carryforward allowed ²	2014 top marginal tax rate	Hypothetical 2014 tax benefit for a \$10,000 investment (I: individual; J: joint) ³
Alabama	I: \$5,000/tax return ⁴ J: \$10,000/ tax return ⁴	No	Yes/Yes ⁵	No	5.00%	I: \$250 J: \$500
Alaska	No state income tax	–	–	–	–	–
Arizona	I: \$2,000/tax return ⁶ J: \$4,000/tax return ⁶	No	Yes/No	No	4.54%	I: \$91 J: \$182
Arkansas	I: \$5,000/tax return J: \$10,000/tax return	No	Yes/Yes	No	7.00%	I: \$350 J: \$700
California	No deduction	–	–	–	–	–
Colorado	I/J: Unlimited	No	Yes/Yes	No	4.63%	I/J: \$463
Connecticut	I: \$5,000/tax return J: \$10,000/tax return	No	No/No	5 years	6.70%	I: \$335 J: \$670
Delaware	No deduction	–	–	–	–	–
District of Columbia	I: \$4,000/tax return J: \$8,000/tax return ⁷	Yes	Yes/No ⁸	5 years	8.95%	I: \$358 J: \$716
Florida	No state income tax	–	–	–	–	–
Georgia	I/J: \$2,000/beneficiary ⁹	No	Yes/Yes	No	6.00%	I/J: \$120
Hawaii	No deduction	–	–	–	–	–
Idaho	I: \$4,000/tax return J: \$8,000/tax return	No	Yes/Yes ¹⁰	No	7.40%	I: \$296 J: \$592

¹ This column helps taxpayers determine whether it is necessary to add back to state taxable income (“recapture”) previous deductions when 1) taking a non-qualified distribution or 2) rolling previously deducted amounts from an in-state plan to an out-of-state plan rollover.

² Some states allow taxpayers to carry forward deductions that they do not use in a given year. For those states, we have provided the time frame in which all deductions must be taken. When the phrase “unlimited” is used, taxpayers may carry forward their deductions indefinitely.

³ The hypothetical year-one tax benefit is calculated by multiplying the maximum contribution deduction amount allowed in a particular state (up to \$10,000) by the state’s top marginal tax rate. Note: States allowing a carryforward may offer tax deduction benefits that extend beyond the first contribution year.

⁴ For joint filers, each spouse must contribute \$5,000 in order to take thximum deduction.

⁵ Alabama requires recapture at the rate of 110% of the amount of a nonqualified distribution up to the total amount previously deducted. The state requires investors to include earnings on withdrawals from out-of-state 529 plans as part of their state taxable income even if withdrawals are used for qualified higher educational expenses (QHEEs).

⁶ The state allows deductions for contributions to any state’s 529 plan.

⁷ For joint filers, each spouse must establish a separate account to take the maximum deduction.

⁸ No recapture on rollovers after account has been established two years.

⁹ Contributions made after December 31 of the current year but before April 15 of the following year may be deducted in the current year.

¹⁰ Rollovers are subject to recapture to the extent of contributions deducted on the return for the current or prior year.

Important notes: Tax rates and hypothetical year-one tax benefits are generally for calendar year 2014. The information in this chart was compiled from state statutes, program descriptions, state tax forms, informal state guidance and undocumented oral communications with state officials and program managers through December 2014. Thus, while every effort was made to accurately report state tax features, we cannot guarantee the accuracy of the information in these tables. Certain features of a particular state’s tax law, such as the deductibility of rollovers, a state’s definition of non-QHEE withdrawals and other state-specific features or interpretations, may not be included in the tables. State tax law and the interpretations of state tax law, particularly in the area of 529 plans, change frequently. Before investing in any state’s 529 plan, you should consult a tax advisor.

If withdrawals are used for purposes other than higher education, the earnings will be subject to a 10% federal tax penalty in addition to federal and, if applicable, state income tax.

Deductions/credits for 529 plan contributions (cont.)

State	Maximum contribution deduction (I: individual; J: joint)	Deduction limited to account owner contribution only?	Subject to recapture ¹	Carryforward allowed ²	2014 top marginal tax rate	Hypothetical 2014 tax benefit for a \$10,000 investment (I: individual; J: joint) ³
Illinois	I: \$10,000/tax return J: \$20,000/tax return	No	Yes/Yes	No	5.00%	I/J: \$500
Indiana	I/J: \$1,000 credit/tax return ¹¹	No	Yes/Yes ¹²	No	3.40%	I/J: \$1,000
Iowa	I: \$3,098/beneficiary ¹³ J: \$6,196/beneficiary ¹³	Yes	Yes/Yes	No	8.98%	I: \$278 J: \$556
Kansas	I: \$3,000/beneficiary ¹⁴ J: \$6,000/beneficiary ¹⁴	No	Yes/No	No	4.80%	I: \$144 J: \$288
Kentucky	No deduction	–	–	–	–	–
Louisiana	I: \$2,400/account ¹⁵ J: \$4,800/account ¹⁵	Yes	Yes/No	No	6.00%	I: \$144 J: \$288
Maine	I/J: \$250/beneficiary ¹⁶	No	No/No	No	7.95%	I/J: \$20
Maryland	I: \$2,500/beneficiary ¹⁷ J: \$5,000/beneficiary ¹⁷	Yes	Yes/No	10 years	5.75%	I: \$144 J: \$287
Massachusetts	No deduction	–	–	–	–	–
Michigan	I: \$5,000/tax return ¹⁸ J: \$10,000/tax return ¹⁸	No	Yes/No	No	4.25%	I: \$212 J: \$425
Minnesota	No deduction	–	–	–	–	–
Mississippi	I: \$10,000/tax return ¹⁹ J: \$20,000/tax return ¹⁹	No	Yes/No	No	5.00%	I/J: \$500
Missouri	I: \$8,000/tax return ²⁰ J: \$16,000/tax return ²⁰	Yes	Yes/No	No	6.00%	I: \$480 J: \$600
Montana	I: \$3,000/tax return J: \$6,000/tax return	No ²¹	Yes/Yes ²²	No	6.90%	I: \$207 J: \$414
Nebraska	I/J: \$10,000/tax return	Yes ²³	Yes/Yes	No	6.84% ²⁴	I/J: \$684
Nevada	No state income tax	–	–	–	–	–
New Hampshire	No state income tax	–	–	–	–	–
New Jersey	No deduction	–	–	–	–	–
New Mexico	I/J: Unlimited	No	Yes/Yes	No	4.90%	I/J: \$490
New York	I: \$5,000/tax return ²⁵ J: \$10,000/tax return ²⁵	Yes ²⁶	Yes/Yes	No	8.82% ²⁷	I: \$441 J: \$882

¹¹ To calculate their credit, taxpayers should multiply their total annual contribution by 20%. The maximum credit allowed is \$1,000 for a \$5,000 contribution.

¹² Recapture also applies to amounts deducted if an account is closed within the first year of establishment.

¹³ This amount is indexed annually for inflation. For joint filers, each spouse must establish a separate account to take the maximum deduction.

¹⁴ The state allows deductions for contributions to any state's 529 plan.

¹⁵ Unused portions of the deduction contribution limit in any year may be carried forward to subsequent years. Deduction contribution limits are doubled for families when either the family's federal AGI is less than \$30,000 or the beneficiary on the account is entitled to a free school lunch under the Richard B. Russell National School Act.

¹⁶ The state allows deductions for contributions to any state's 529 plan. Taxpayers with a federal AGI above \$100,000 (single filer) or \$200,000 (joint filers) are not eligible for the deduction.

¹⁷ For joint filers, each spouse must establish a separate account to take the maximum deduction.

¹⁸ The amount contributed and eligible for deduction in a given year must be reduced by any amount that is either withdrawn (whether or not the withdrawal is qualified) or rolled over to an out-of-state plan in the same year.

¹⁹ Contributions made after December 31 of the current year but before April 15 of the following year may be deducted in the current year.

²⁰ The state allows deductions for contributions to any state's 529 plan.

²¹ The state allows deductions for contributions to any state's 529 plan. A deduction may be taken only by a contributing account owner, spouse, child or stepchild (if the child or stepchild is a Montana resident).

²² Recapture also applies to qualified withdrawals made within the first three years of account establishment.

²³ Contributions by a custodian who is also the parent or guardian of the beneficiary of an UGMA or UTMA account may claim a deduction.

²⁴ Taxpayers are subject to an additional tax ranging from 0.183% to 0.438% on federal adjusted gross income (AGI) between \$254,200 to \$544,200 for a single filer or \$305,050 to \$885,050 for a joint filer.

²⁵ Deduction also reduces New York City taxable income for New York City residents.

²⁶ Any person may make a contribution to a New York state 529 plan, but only the account owner (or spouse if filing a joint return) is eligible for a deduction.

²⁷ The maximum tax rate for New York City residents is 3.876% in addition to the maximum state tax rate of 8.82%. For an individual New York City resident, the additional hypothetical year-one tax benefit is \$194 (\$388 for joint filers).

Deductions/credits for 529 plan contributions (cont.)

State	Maximum contribution deduction (I: individual; J: joint)	Deduction limited to account owner contribution only?	Subject to recapture ¹	Carryforward allowed ²	2014 top marginal tax rate	Hypothetical 2014 tax benefit for a \$10,000 investment (I: individual; J: joint) ³
North Carolina	No deduction	–	–	–	–	–
North Dakota	I: \$5,000/tax return J: \$10,000/tax return	No	No/No	No	3.22%	I: \$161 J: \$322
Ohio	I/J: \$2,000/beneficiary	No	Yes/Yes	Unlimited	5.33%	I/J: \$107
Oklahoma	I: \$10,000/tax return ²⁸ J: \$20,000/tax return ²⁸	No	Yes/No ²⁹	5 years	5.25%	I/J: \$525
Oregon	I: \$2,265/tax return ³⁰ J: \$4,350/tax return ³⁰	No	Yes/Maybe ³¹	4 years	9.90%	I: \$224 J: \$431
Pennsylvania	I: \$14,000/beneficiary ³² J: \$28,000/beneficiary ³²	No	No/No	No	3.07%	I/J: \$307
Rhode Island	I: \$500/tax return J: \$1,000/tax return	Yes	No/No ³³	Unlimited	5.99%	I: \$30 J: \$60
South Carolina	I/J: Unlimited ²⁸	No	Yes/No	No	7.00%	I/J: \$700
South Dakota	No state income tax	–	–	–	–	–
Tennessee	No state income tax	–	–	–	–	–
Texas	No state income tax	–	–	–	–	–
Utah	I: \$93 credit/beneficiary ³⁴ J: \$186 credit/beneficiary ³⁴	Yes ³⁵	Yes/Yes	No	5.00%	I: \$93 J: \$186
Vermont	I: \$250 credit/beneficiary ³⁶ J: \$500 credit/beneficiary ³⁶	Yes	Yes/No	No	8.95%	I: \$250 J: \$500
Virginia	I/J: \$4,000/account ³⁷ Unlimited if 70 or older ³⁹	Yes ³⁸	Yes/Yes	Unlimited	5.75%	I/J: \$230
Washington ⁴⁰	No state income tax	–	–	–	–	–
West Virginia	I/J: Unlimited	No	Yes/No	5 years	6.50%	I/J: \$650
Wisconsin	I/J: \$3,050/beneficiary ⁴¹	No	Yes/Yes	Unlimited	7.65%	I/J: \$233
Wyoming ⁴⁰	No state income tax	–	–	–	–	–

²⁸ Contributions made after December 31 of the current year, but before April 15 or the state tax-filing deadline of the following year, whichever is later, may be deducted in the current year.

²⁹ Recapture on rollovers within one year from the date of the contribution or during the five-year carryforward election.

³⁰ Contributions made after December 31 of the current year, but before the earlier of April 15 of the following year or the date the tax return is filed, may be deducted in the current year. Those amounts are indexed annually for inflation. Amounts shown are for the 2014 calendar year.

³¹ Per the Oregon 529 Program Description, Oregon law is unclear as to whether recapture is required on a rollover to an out-of-state plan. Please consult your tax advisor.

³² The deduction limit is equal to the federal annual gift tax exclusion amount. Residents making a contribution to any state's plan are eligible for a deduction. For joint filers, each spouse must have \$14,000 of taxable income to take the maximum deduction.

³³ No recapture on rollovers after account has been established two years.

³⁴ These amounts are indexed annually for inflation. Beneficiary must be younger than 19 at the time the account was established for any contributions to be eligible for a benefit. For each beneficiary, a taxpayer may take a credit of 5% of the first \$1,860 (\$3,720 for a joint filer) contributed to a Utah 529 plan.

³⁵ The account owner may take a deduction for contributions made by a person other than the account owner.

³⁶ A taxpayer may take a tax credit of 10% of the first \$2,500 (\$5,000 for joint filers) contributed to a beneficiary's Vermont 529 plan (maximum \$250 for an individual filer; \$500 for a joint filer). For joint filers, each spouse must contribute separately to the in-state plan in order to take the maximum credit for joint filers.

³⁷ Deduction is allowed for rollovers from other 529 plans as well as contributions from Coverdell, qualified savings bonds and UGMA/UTMA accounts. To take more than one \$4,000 deduction for the same owner/beneficiary, each account must have different investments.

³⁸ The account owner may take a deduction for contributions made by a person other than the account owner.

³⁹ All contributions made before age 70 that have been carried forward may be deducted in full in the tax year when the account owner turns 70.

⁴⁰ Currently does not offer an in-state savings plan.

⁴¹ Effective 2014, these amounts are indexed annually for inflation. Contributions made after the current year, but before April 15 or the state tax-filing deadline of the following year, whichever is later, may be deducted in the current year.

Tax impact of rollovers to out-of-state plans

Rolling assets from an in-state 529 plan to an out-of-state 529 plan may trigger state-tax consequences. Currently, when a rollover occurs:

- **Alabama, Arkansas, Colorado, Georgia, Idaho, Illinois, Indiana, Iowa, Montana, Nebraska, New Mexico, New York, Ohio, Utah, Virginia and Wisconsin** require residents to add back to their state taxable income ("recapture") previous deductions on contributions.
- **New York** requires residents to also include earnings on rollovers as part of their state taxable income.

Potential In-State Matching Benefits

These states currently match contributions to the in-state 529 savings plan. For more detailed information, please consult the program descriptions or contact a representative of the in-state 529 plan.

	Arkansas	Colorado	Louisiana	Maine ⁴²	Missouri
State residency requirement	Account owner and beneficiary must be residents	Account owner and beneficiary must be residents	Account owner or beneficiary must be a resident	Account owner or beneficiary must be a resident	Account owner and beneficiary must be residents
Beneficiary age limit	18 or younger when initially applying for matching grant	12 or younger when initially applying for matching contribution	None	None	13 or younger when initially applying for matching grant
Maximum income limit⁴³	\$60,000	Varies per year ⁴⁴	None	\$75,000 (inflation-indexed)	\$74,999
Maximum match amount	\$500 a year for five years	\$500 a year for five years	2% to 14% of annual contributions	\$100 a year for ten years	\$500 a year for five years
Website	thegiftplan.com	collegeinvest.org	startssaving.la.gov	famemaine.com	most529grant.org

	Nevada	New Jersey	North Dakota	Utah	West Virginia
State residency requirement	Account owner and beneficiary must be residents	Account owner or beneficiary must be a resident when the beneficiary attends college	Account owner must be a resident and account must have been opened on or after July 1, 2007	Account owner and beneficiary must be residents	Account owner must be a resident
Beneficiary age limit	13 or younger when initial matching grant application is approved	None	15 or younger when initially applying for matching grant	17 or younger when initially applying for matching contribution	12 or younger when initially applying for matching grant
Maximum income limit⁴⁴	\$74,999	None	Individual: \$60,000 Joint: \$100,000	Varies per year ⁴⁴	\$80,000
Maximum match amount	\$300 a year for five years	\$1,500	\$300 a year for one to three consecutive years ⁴⁵	\$400 a year for four years	\$500 a year for five years
Website	upromisecollegefund.com	njbest.com	collegesave4u.com	uesp.org	smart529.com

⁴² Information applies to the NextStep Matching Grant program. NextGen Initial Matching Grant program also provides a one-time \$200 matching grant.

⁴³ Based on joint federal adjusted gross income (AGI).

⁴⁴ Family's federal AGI must be less than 200% of the federal poverty level.

⁴⁵ Effective May 1, 2014, the matching grant was reduced from up to \$500 a year to up to \$300 a year. Maximum match amount is \$900 over three years for an AGI of \$30,000 or less if single, and an AGI of \$60,000 or less if married or filing jointly. Maximum match amount is a one-time \$300 amount for an AGI of \$30,001 to \$60,000 if single and an AGI of \$60,001 to \$100,000 if married or filing jointly.