OFFICE OF ILLINOIS STATE TREASURER

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New Federal Tax Breaks Do Not Apply to Illinois Taxes When Paying Private Grade, High School Expenses

State Treasurer Frerichs Cautions Families on Tax Penalty Risk

SPRINGFIELD – Families that use their Bright Start or Bright Directions college savings accounts to pay for tuition, fees or other expenses at private or parochial schools, including Catholic schools, would violate Illinois' tax code, Illinois State Treasurer Michael Frerichs cautioned today. Frerichs also emphasized that federal tax reform did not change any of the benefits for using Bright Start or Bright Directions to save or pay for higher education.

Illinois' tax code specifically limits tax-free growth in Bright Start and Bright Directions accounts when used for qualified higher education expenses. As such, a distribution from a 529 plan for K-12 costs is not a qualified expense for Illinois tax purposes. Families who claim the deduction could face state tax penalties if caught by a state tax auditor.

"Our analysis concludes that families who use Bright Start or Bright Directions money on elementary or high school expenses and then cite those expenditures when seeking tax relief will be in conflict with state law and could incur tax penalties if audited by state authorities," Frerichs said.

In Illinois, the 529 Bright Start and Bright Directions plans are managed by the state treasurer's office. The recently passed federal tax package allows states to expand 529 programs to private and religious K-12 tuition expenses in 2018 and beyond. The federal legislation took effect Jan. 1 and could affect tax filers in 2019.

Here is how the tax break works for Bright Start and Bright Directions college savers who are Illinois taxpayers: Contributions to the accounts reduce a taxpayer's Illinois adjusted gross income up to $10,000 for individuals and $20,000 for married couples filing jointly. At the federal level, the earnings generated within Bright Start and Bright Directions are not subject to federal income taxes while they accumulate. Also, distributions from these plans are not subject to federal or state income taxes when used for qualified higher education costs such as tuition, mandatory fees, certain room and board, computers and required supplies.

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About the Illinois Treasurer

The Illinois Treasurer is the state's chief investment officer and Frerichs is a Certified Public Finance Officer. He protects consumers by encouraging savings plans for college or trade school, increasing financial education among all ages, and removing barriers to a secure retirement. As the state's Chief Investment Officer, he actively manages approximately $28 billion. The portfolio includes $13 billion in state funds, $10 billion in college savings plans and $5 billion on behalf of local and state governments. The investment approach is cautious to ensure the preservation of capital and returns $28 to the state for every $1 spent in operations. The Treasurer's Office predates Illinois incorporation in 1818. Voters in 1848 chose to make it an elected office.

The Bright Start and Bright Directions College Savings Programs are part of the Illinois College Savings Pool and they are designed to qualify as qualified tuition programs under the provisions of Section 529 of the Internal Revenue Code. The Bright Start and Bright Directions College Savings Programs are sponsored by the State of Illinois and administered by the Illinois State Treasurer, as Trustee. Union Bank & Trust Company serves as Program Manager, and Northern Trust Securities, Inc. acts as Distributor. Investments in the Bright Start and Bright Directions College Savings Programs are not guaranteed or insured by the State of Illinois, the Illinois State Treasurer, Union Bank & Trust Company, Northern Trust Securities, Inc., the Federal Deposit Insurance Corporation, or any other entity.

An investor should consider the investment objectives, risks, and charges and expenses associated with municipal fund securities before investing. This and other important information is contained in the fund prospectuses and the Bright Start Program Disclosure Statement (issuer's official statement), which can be obtained from your financial professional and on 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.

An investor should consider, before investing, whether the investor's or designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's 529 plan. Investors should consult a tax advisor.

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