

## Tax Season: When It Pays to Save

What is one of the best perks of your Bright Directions account? Yearly tax breaks. Account owners who file an Illinois state income tax return are eligible to deduct contributions they made to Bright Directions: up to \$10,000 per tax year as an individual or \$20,000 if married and filing jointly.<sup>1</sup>

Maximize your available savings by preparing for tax season with our 2022 Prep Checklist:



### ✓ Gather Forms

#### ☐ Schedule M (IL-1040)

Review 2022 Schedule M for filing and reporting instructions to deduct 2022 contributions from your Illinois taxable income.

#### ☐ IRS Form 1099-Q

If you took a withdrawal in 2022,<sup>3</sup> whomever the check was payable to — whether it's the account owner or the beneficiary — will receive IRS Form 1099-Q in the mail (mailed by January 31). The beneficiary will also receive the 1099-Q for any checks payable to the college.

#### ☐ IRS Form 709

Discuss any IRS Form 709 filing requirements with your tax professional if you made a large gift of \$15,000, or more, to a beneficiary.

### ✓ Review Your Contributions

#### ☐ Find Your 2022 Deposits

Double-check your contributions between your account statements and online transaction history. Review your:

1. Fourth quarter 2022 statement to see your year-to-date contributions (reported on a cash basis).
2. Bright Directions account online to see your 2022 transactions.
3. Bank account transactions for your Bright Directions contributions in 2022.
4. Bright Directions Contributions Summary posted online mid-February located with your quarterly account statements.

Your statement will be posted online several weeks after quarter end. You can easily view Bright Directions statements by logging in at [BrightDirections.com](https://BrightDirections.com) and selecting "Statements and Tax Forms" on the left side menu to view your contributions.

### ✓ Max Out Your Savings

#### ☐ Report Deposits Made as a Non-Account Owner

If you contributed to a Bright Directions account you do not own, include the account number, contribution amount, and check the box in Column C: Gift on Schedule M (IL-1040). If you do not have the account number for a gift contribution, attach a copy of the canceled check and the name and address of the Bright Directions account owner.

#### ☐ Roll Over Funds to Bright Directions

Did you transfer money from a non-Illinois qualified tuition program into your Bright Directions account? You could be eligible for a deduction for Illinois individual income tax purposes.<sup>2</sup> Generally, the portion of the rollover that represented contributions to the out-of-state 529 plan is deductible up to the Illinois \$10,000/\$20,000 tax deduction max.<sup>1</sup>

#### TAXES

If you have questions about your 529 plan when filing your taxes, visit [BrightDirections.com/tax-center](https://BrightDirections.com/tax-center) or reach out to your tax professional.

## Financial Terminology: Understanding Your Advisor

Bright Directions helps you save for the future with the help of an advisor, but learning their language takes time. To decipher finance lingo, here are a few definitions for common terms your advisor likely uses.

- ▶ **Asset Allocation:** Involves dividing your investments between different assets, such as stocks, bonds, and cash. It's based on your goals, risk tolerance, and timeline for investing.
- ▶ **Diversification:** Is spreading your money amongst different investments with the goal to reduce your risk. Some refer to it as "not putting all your eggs in one basket."
- ▶ **Mutual Fund:** Is an investment vehicle that pools money from many investors and invests the money in various investments like stocks, bonds, and cash. The Bright Directions portfolios invest in mutual funds and other investments.

### Check Your 529 IQ

Time to put your college savings knowledge to the test. Take our 529 IQ quiz through the QR code and see how you stack up with fellow Bright Directions savers.



### YOU HEARD IT HERE

"When you plan to save, it allows your kids the power to choose. ... So, if a child says, 'Oh, I want to be a doctor,' or 'I want to be an artist,' if the money's not there at all, there's certain choices that just vanish because they cost a certain amount of money. ... Saving for college gives them the chance to have a choice."

Sagar Deo  
Elmhurst, IL

The Bright Directions College Savings Program is sponsored by the State of Illinois and administered by the Illinois State Treasurer, as Trustee. Union Bank and Trust Company serves as Program Manager and Northern Trust Securities, Inc., acts as Distributor. Balances in your Bright Directions account are not guaranteed or insured by Bright Directions, the State of Illinois, the Illinois State Treasurer, any other state or federal agency, Union Bank and Trust Company or any of its affiliates, Northern Trust Securities, Inc. or any of its affiliates, the Federal Deposit Insurance Corporation (except as provided in the Program Disclosure Statement solely with respect to the FDIC-insured Bank Savings Underlying Investment), 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 Directions Advisor-Guided 529 College Savings Program Disclosure Statement, which can be obtained from your financial professional or at [BrightDirections.com](http://BrightDirections.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 state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in that state's 529 plan.

<sup>1</sup>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 Directions Advisor-Guided 529 College Savings Program, Bright Start Direct-Sold College Savings Program, and College Illinois 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.

<sup>2</sup>The Illinois Administrative Code provides that in the case of a rollover from a non-Illinois qualified tuition program, the amount of the rollover that is treated as a return of the original contribution to the prior qualified tuition program (but not the earnings portion of the rollover) is eligible for the deduction for Illinois individual income tax purposes.

<sup>3</sup>Withdrawals used to pay for Illinois Qualified Expenses are free from federal and Illinois state income tax. Illinois Qualified 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; certain expenses for special needs services needed by a special needs beneficiary; apprenticeship program expenses; and, repayment of up to \$10,000 of qualified education loans.

Illinois Qualified Expenses do not include expenses for tuition in connection with the Beneficiary's enrollment or attendance at an elementary or secondary public, private, or religious school. The amount of any deduction previously taken for Illinois income tax purposes is subject to recapture in the event an Account Owner takes a Nonqualified Withdrawal or Illinois Nonqualified Withdrawal from an Account or if such assets are rolled over to a non-Illinois 529 plan.