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Will I be penalized if the money in my 529 plan isn't used for college expenses?

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Answer:

Whether your 529 plan is a college savings plan or a prepaid tuition plan, the money you withdraw must be used for qualified higher education expenses. These expenses include tuition, fees, books, and room and board (if the beneficiary is attending school at least half-time) for college and graduate school.

If you use the money for any other purpose, the earnings portion of the distribution will be taxable on your federal (and possibly state) income tax return in the year of the distribution. Also, you generally must pay a 10 percent federal penalty on the earnings portion of your distribution. (There are a couple of exceptions. The penalty is usually not charged if you terminate the account because your beneficiary has died or become disabled, or if you withdraw funds not needed for college because your beneficiary has received a scholarship.)

Bear in mind that the "distributee" is the one subject to tax. (The distributee is the person who actually receives the money from the 529 plan.) In most situations, this will be the account owner. So, if you fund a college savings plan for your son, for example, and withdraw the money three years later (before he reaches college age), you will probably be the one taxed and penalized. However, some plans specify who the distributee is, while others allow the account owner to determine the recipient of a nonqualified withdrawal.

Note: Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits.

Janney Montgomery Scott LLC Financial Advisors are available to discuss the suitability and risks involved with various products and strategies presented. We will be happy to provide a prospectus, when available, and other information upon request. Please note that the information provided includes reference to concepts that have legal, accounting and tax implications. It is not to be construed as legal, accounting or tax advice, and is provided as general information to you to assist in understanding the issues discussed. Neither Janney Montgomery Scott LLC nor its Financial Advisors (in their capacity as Financial Advisors) give tax, legal, or accounting advice. We would urge you to consult with your own attorney and/or accountant regarding the application of the information contained in this letter to the facts and circumstances of your particular situation.

Janney Montgomery Scott LLC, is a full-service investment firm that is a member of the NYSE, the FINRA and SIPC.



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