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## IMPORTANT UPDATE ON COLORADO STATE TAX TREATMENT OF WITHDRAWALS MADE TO PAY K-12 TUITION EXPENSES

Changes to the Federal tax law that went into effect at the start of 2018 expanded the qualified use of Section 529 accounts by allowing withdrawals for K-12 tuition expenses, with a limit of \$10,000 per year, per child. However, Colorado authorities have determined that withdrawals for K-12 tuition expenses will be treated as non-qualified withdrawals for Colorado state tax purposes. Accordingly, (i) the portion of a withdrawal made for K-12 tuition expenses that is attributable to contributions previously deducted for Colorado income tax purposes will be subject to Colorado state tax recapture and added to the Colorado taxable income of the taxpayer who took the deduction in the year the withdrawal is made, and (ii) the earnings portion of a withdrawal made for K-12 tuition expenses will be subject to Colorado income tax.

The cautionary statement in the preceding paragraph concerning the applicability of state tax recapture and state income tax to K-12 withdrawals is intended only for Colorado taxpayers. Non-Colorado account owners should check their own state laws with respect to potential state tax recapture or other impact of K-12 withdrawals.

All Scholars Choice account owners are urged to be extremely cautious and should consult with their tax advisors before using their Scholars Choice accounts to pay for any K-12 tuition expenses.

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