February 2020

Important Update on the Recent Federal Tax Law Changes

On December 21, 2019, the president signed the Setting Every Community Up for Retirement Enhancement Act (the "SECURE Act") into law. The law impacts Section 529 college savings plans, including the Scholars Choice College Savings Program.

The new law expands the qualified use, for federal tax purposes, of Section 529 accounts by allowing withdrawals to be used for:

- fees, books, supplies and equipment required for a designated beneficiary's participation in an apprenticeship program that is registered and certified with the U.S. Department of Labor; or

- principal or interest payments on any qualified education loan of the designated beneficiary or a sibling of the designated beneficiary, subject to a lifetime limitation of $10,000 for the designated beneficiary and each sibling of the designated beneficiary.

Section 529 of the federal tax code sets the general rules applicable to qualified tuition programs, and authorizes each state to administer its own program and determine the unique state tax treatment and other policies applicable to such program. In Colorado, the intent of the state's 529 college savings plans, including the Scholars Choice College Savings Program, is to encourage savings for higher education. Colorado tax law remains unchanged, and CollegeInvest 529 plans can only be used for qualified higher education expenses. Any other use, including student loan repayments, are considered non-qualified withdrawals that are subject to taxes and penalties. It will take an act of the Colorado legislature to extend the favorable Colorado state tax treatment for withdrawals for qualified higher education expenses to withdrawals for student loan repayments. If a withdrawal is not qualified for state tax purposes, it would trigger a deduction recapture under Colorado tax law. Colorado taxpayers should consult their tax advisors before making a withdrawal for student loan repayments and before making a contribution which they intend to ultimately withdraw for student loan repayments.

Non-Colorado account owners should check their own state laws with respect to potential state deduction recapture or other impact of withdrawals used to pay for any qualified education loan repayments.

An investor should consider the Program's investment objectives, risks, charges and expenses before investing. The Program Disclosure Statement and Participation Agreement (www.scholars-choice.com/pds) contains more information and should be read carefully before investing. If an investor and/or an investor's beneficiary are not Colorado taxpayers, they should consider before investing whether their home states offer 529 plans that provide state tax and other benefits such as financial aid, scholarship funds and protection from creditors that are only available to state taxpayers investing in such plans.

Investments in the Scholars Choice College Savings Program are not insured by the FDIC or any other government agency and are not deposits or other obligations of any depository institution. Investments are not guaranteed by the State of Colorado, CollegeInvest, QS Investors, LLC, Legg Mason Investor Services, LLC, or Legg Mason, Inc. or its affiliates and are subject to risks, including loss of principal amount invested.

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