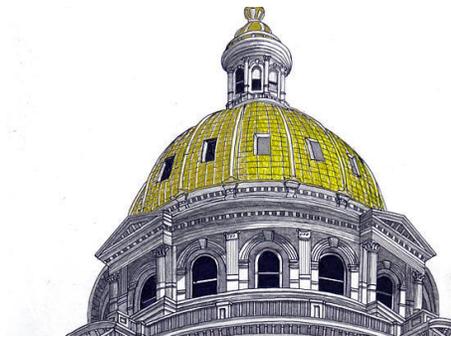


**State Representative**  
**DISTRICT 25**  
TIMOTHY J. LEONARD  
31714 Ruby Ranch Road  
Evergreen, CO 80203  
Capitol: 303-866-2582  
tim@timleonardforcolorado.com



**Member:**  
Education Committee  
State, Veterans & Military Affairs Committee  
Legislative Audit Committee

**Relieving Parents of Coming 529 Saving Account Penalties**  
**Aligning Colorado's 529 Accounts with new Federal Tax Benefits**  
**12 March 2018**

Get ready, parents, for penalties, interest, and a big tax recapture from the Department of Revenue.

While you save for your children's education expenses with a 529 account, you may get socked with a big penalty from the State of Colorado if you think you can take advantage of the new Tax Cuts and Jobs Act passed in December.

The Feds now allow parents to use 529 savings for K-12 expenses in addition to college payments. This will help encourage folks to save earlier and save more for their children's education. They can put away funds that will accrue tax-free and they can withdraw them tax-free to pay for elementary, high school, and college expenses. Colorado gives an extra incentive by giving a 4.63% tax credit for contributions, however, it hasn't changed its law yet to allow "qualified distributions" to be expanded to include K-12 expenses.

And if two legislators, Rep. Alec Garnett (D-Denver) and Brittany Petterson (D-Jefferson) get their way, parents will receive triple penalties after they mistakenly write their checks to their children's elementary schools. These two legislators have proposed a bill (HB18-1209) to specifically NOT ALLOW a change in Colorado law so parents cannot make the same distributions as the federal government now allows.

Their bill is trying to counter the one offered by me (HB18-1221) which WILL ALLOW a seamless alignment of feds and Colorado so that no parent gets penalized when paying for their child's high school from their 529 savings.

These penalties are enough to anger parents who thought their government was encouraging them to save. If they withdraw \$3,000 for K-12 expenses, the Department of Revenue will catch up to them in about two years and send them a tax penalty notice informing them that they owe back the \$128 of tax benefit they received two years ago PLUS about \$21 in interest PLUS a \$15 penalty – for a total check out of their savings of \$164. This penalty is not going to encourage parents to save – it's going to make them hopping mad.

These two bills will be heard back-to-back in the House Education Committee on 26 March at 1:30p. Committee members might be interested in the thoughts of 529 account holders.

*State Representative Tim Leonard is in his third session of the General Assembly representing House District 25, covering the mountain communities of Jefferson County. He has lived in the district for 24 years, owns a commercial real estate development management firm, and raises his six children, college grad to elementary student, in Evergreen.*

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