

# 529 Unused Funds — Quick Reference (Colorado & Federal Rules)



What to do if your child doesn't go to college (or you have leftover 529 funds).  
Colorado-first guidance; check Colorado vs. federal differences before you withdraw.

Updated Feb 2026

OPTION	FEDERAL TREATMENT	COLORADO TREATMENT	DOLLAR LIMITS	WHEN IT MAKES SENSE	KEY RISKS/NOTES	HOW TO DO IT
Keep the 529 invested for future education	Allowed. 529s have no federal or state time/age limit; funds can remain invested and used later for qualified education.	No special state difference.	N/A	Plans are uncertain; preserve tax-free growth for grad school, re-skilling, or later beneficiary changes.	Market risk; plan fees continue.	Do nothing now; review annually.
Change the beneficiary (sibling, cousin, yourself, etc.)	Tax-free if new beneficiary is a qualified family member under 529 rules.	Qualified when distributions are for Colorado-qualified education uses.	N/A	Another family member can use funds sooner.	Potential gift/transfer tax considerations if skipping generations.	Use the beneficiary change form for your plan.
Registered apprenticeships / recognized credentials	Qualified for DOL-registered apprenticeship fees, books, supplies, and required tools/equipment. Also eligible for certain approved credentials, licenses, and certifications (effective 7/5/2025) including required testing and certain continuing education/renewals - verify eligibility before paying.	DOL-registered apprenticeships are qualified in Colorado. For credentials / licenses / certifications, Colorado treatment may vary - verify before withdrawing.	N/A	Child prefers trades or credentials instead of college.	Confirm program eligibility before paying.	Verify eligibility (DOL registry / program documentation); pay qualifying costs.
529 to Roth IRA rollover (beneficiary)	Federal option under SECURE 2.0 with guardrails: 529 age over 15 yrs; exclude last 5 yrs; annual cap = IRA limit; lifetime cap \$35,000; earned income required; trustee-to-trustee only; Roth IRA must be owned by the 529 beneficiary.	Colorado legislation has not taken any action on the tax treatment of Roth rollovers.	Annual: IRA limit; Lifetime: \$35,000	College isn't happening; beneficiary has earned income and wants a retirement jump-start.	Document 15-year/5-year tests; IRA eligibility rules apply.	Use Roth IRA Rollover forms (trustee -to-trustee) for your plan.

OPTION	FEDERAL TREATMENT	COLORADO TREATMENT	DOLLAR LIMITS	WHEN IT MAKES SENSE	KEY RISKS/NOTES	HOW TO DO IT
529 to ABLE (529A) rollover	Tax-free; now permanent; counts toward ABLE annual contribution limit; same beneficiary or eligible family member with disabilities.	In-state 529 to Colorado ABLE rollovers generally do not qualify for the ABLE subtraction; certain out-of-state to Colorado ABLE rollovers may.	Up to ABLE annual contribution limit.	Beneficiary qualifies for ABLE and needs disability-related flexibility.	Must meet ABLE eligibility; may affect certain benefits thresholds.	Open/roll via Colorado ABLE.
K–12 expenses	Expanded eligible K–12 expenses effective 7/5/2025 (e.g., curriculum/materials, tutoring, testing). Annual cap increases to \$20,000 starting 1/1/2026.	Non-qualifying for Colorado income tax purposes — CollegeInvest recapture/add-back applies.	Annual cap applies	Family chooses private K–12 and accepts the Colorado tax trade-off.	State/federal mismatch can create surprises; plan for add-back.	Use standard withdrawal; retain receipts.
Student loan repayment	Federally allowed but limited: lifetime \$10,000 per beneficiary + \$10,000 per sibling.	Colorado differs; current CO DOR guidance indicates CollegeInvest recapture/add-back may apply for CO income tax reporting.	\$10,000 lifetime per person (plus siblings)	Helps reduce smaller balances after graduation (consider Colorado impact).	Consumes the lifetime cap; may reduce Colorado tax benefits.	Withdraw and pay the loan servicer; keep proof.
Scholarship / U.S. service academy / death / disability exceptions	Non-qualified distributions up to these amounts avoid the 10% penalty (earnings still taxed).	Earnings may still be taxable; keep scholarship/service academy documentation.	N/A	Received a large scholarship or attending a service academy.	Tax still due on earnings; retain documentation.	Use withdrawal process; keep award records.
School refunds after a 529 withdrawal (60-day recontribution)	If a school refunds expenses after a 529 distribution, the refunded amount can generally be recontributed within 60 days of receiving the refund (typically to a 529 for the same beneficiary).	Generally follows federal treatment; keep documentation.	Within 60 days; limited to refunded amount	Dropped classes, cancellations, housing adjustments.	Miss the window and earnings may become taxable/penalty may apply.	Re-deposit refund (same beneficiary); keep refund letter/check records.
“Cash out (non-qualified withdrawal)”	Earnings taxed as ordinary income + 10% federal penalty (unless exception applies).	CollegeInvest recapture/add-back of prior Colorado deductions may apply.	N/A	Last resort if no other option fits.	Potential federal tax + penalty on earnings AND Colorado add-back.	Use withdrawal request; consider tax professional.

**Colorado reminder: CollegeInvest recapture/add-back may also apply to rollovers to out-of-state 529 plans.**

This quick reference is for educational purposes only and is not tax or legal advice. Federal and Colorado rules may change; consult official guidance and a qualified tax advisor. Match distributions to expenses in the same tax year and keep receipts.