

Fiscal Estimate Narratives

DOR 11/5/2013

LRB Number	13-3508/1	Introduction Number	SB-389	Estimate Type	Original
Description Indexing for inflation of, and making other changes to, the college savings plan income tax deduction					

Assumptions Used in Arriving at Fiscal Estimate

Wisconsin allows for a deduction of \$3,000 from federal adjusted gross income for contributions made to an EdVest college savings account for each beneficiary if the beneficiary is one of the following: the claimant, the claimant's child, the claimant's grandchild, the claimant's great-grandchild, or the claimant's niece or nephew.

The bill makes the following changes to the current deduction:

- Extends the period for deductible EdVest contributions to the 15th day of the 4th month of the taxable year after the taxable year to which the deduction relates
- Allows individuals to carry forward deductions for contributions in excess of the maximum deductible contribution
- Allows any individual to claim a deduction for contributions to an account for any other individual
- Provides that any amount not used for qualified higher education expenses must be added to Wisconsin income to the extent the amount was previously claimed as a deduction

These provisions of the bill make changes that are unobservable on an individual income tax return. As a result, the fiscal effect of the bill is unknown. However, the provisions are generally expected to be minor. Under current law, contributions made after the end of the taxable year would be claimed in the subsequent taxable year. The extended contribution deadline would accelerate some claims, but would be unlikely to dramatically increase aggregate contributions. Similarly, the carry forward provision would allow claimants to make larger upfront deductible contributions, but the deductibility would still be spread out over the same period as smaller annual contributions.

Allowing any individual to deduct contributions to any other individual is likely to increase aggregate deductions, but the most likely contributors may already claim a deduction. It is unclear how many friends, neighbors, employers, and more distant relatives contribute to college savings accounts. With respect to the add back of unused amounts, the prevalence of over-saving is also unknown, but that should also be a minor consideration. Under current federal law, a qualified tuition program must provide adequate safeguards to prevent contributions on behalf of a designated beneficiary in excess of those necessary to provide for the qualified higher education expenses of the beneficiary.

For illustrative purposes, the current law deduction is expected to reduce revenue by approximately \$10 million in fiscal year 2015. If this bill increases the aggregate deduction amount by 2%, it would reduce revenue by approximately \$200,000. The fiscal impact would differ to the extent that the actual change in aggregate deductions is more or less than the example amount.

The bill also:

- Indexes the allowable deduction for inflation beginning in 2014.

The maximum deduction per beneficiary would be expected to increase to \$3,100 in 2014. Assuming that all individuals who claimed a deduction of \$3,000 (or a multiple of \$3,000) increased their deductions to \$3,100, the bill would be expected to reduce revenue by approximately \$180,000 for tax year 2014.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes	\$		\$
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category	\$		\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
	Increased Rev		Decreased Rev
GPR Taxes	\$		\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$		\$
NET ANNUALIZED FISCAL IMPACT			
	<u>State</u>		<u>Local</u>
NET CHANGE IN COSTS	\$		\$
NET CHANGE IN REVENUE	\$See Text		\$
Agency/Prepared By		Authorized Signature	Date
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