

### Fiscal Estimate - 2019 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> 19-0827/1	<b>Introduction Number</b> AB-0769
<b>Description</b> modifying the individual income tax treatment for contributions to and withdrawals from a college savings account and modifying an administrative rule of the Department of Financial Institutions related to the college savings program	
<b>Fiscal Effect</b>	
<b>State:</b> <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input checked="" type="checkbox"/> Decrease Existing Revenues <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs	
<b>Local:</b> <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs                  3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs                  4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
<b>5. Types of Local Government Units Affected</b> <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts	
<b>Fund Sources Affected</b> <b>Affected Ch. 20 Appropriations</b> <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	
<b>Agency/Prepared By</b> DOR/ Bradley Caruth (608) 261-8984	<b>Authorized Signature</b> Michael Oakleaf (608) 261-5173
<b>Date</b> 1/24/2020	

## Fiscal Estimate Narratives

DOR 1/24/2020

LRB Number	19-0827/1	Introduction Number	AB-0769	Estimate Type	Original
<b>Description</b> modifying the individual income tax treatment for contributions to and withdrawals from a college savings account and modifying an administrative rule of the Department of Financial Institutions related to the college savings program					

### Assumptions Used in Arriving at Fiscal Estimate

The bill makes the following changes to the state individual income tax treatment for contributions to and withdrawals from qualified college savings accounts:

1. It increases the maximum contribution amount an individual may deduct from their income. Under current law, the maximum amount for 2019 is \$3,280 (or \$1,640 for each contributor who is married and files separately) and is indexed for inflation. The bill increases the maximum amount to \$5,000 (or \$2,500 for each contributor who is married and files separately) and eliminates indexing. The bill also eliminates a provision under current law that limits the maximum deduction amount for divorced parents to \$1,640 for each former spouse.

DOR expects this provision to initially reduce revenue by approximately \$3.1 million annually. The removal of indexing marginally reduces the impact of the deduction each year until the un-indexed \$5,000 maximum deduction is equal to, or below, the indexed amount under current law.

2. It modifies the contribution deadline for state tax purposes. Under current law, a contribution made on or before April 15 following the end of the taxable year, may be deducted from income for the taxable year. The bill provides that a contribution for a taxable year must be made on or before the date on which the contributor is required to file their state income tax return, not including any extension, for the taxable year.

DOR expects this provision to have a minimal effect on the timing and amount of college saving account deductions.

3. It modifies the 365-day restriction under current law that applies to account withdrawals. Under current law, any amount withdrawn from an account within 365 days of the day on which the amount was contributed to the account must be added to income if the amount was previously deducted from income. The bill limits the 365-day restriction to apply only to withdrawn amounts that were rolled over to the account from another state's qualified tuition program.

This provision will produce a revenue loss because it allows additional contributions to be deducted from income. Under the provision, a person could make a deductible contribution and withdraw the amount in the same year. It is unclear the extent to which the provision will reduce revenue because it is unclear how many people will contribute to an account specifically for the deduction rather than for the incremental earnings from saving for an extended period of time.

For example, if 5,000 people each contribute and then withdraw \$5,000 each on average, the bill will allow an additional deduction of \$25 million (For context, in 2017, 67,000 residents claimed a total of \$260 million of deductions for contributions). Based on existing college savings account subtractions, \$25 million of additional deductions would generate a revenue loss of about \$1.65 million. To the extent that individuals contribute/withdraw more (or less) within a 365-day period in order to take advantage of this provision, the fiscal effect will also be commensurately larger (or smaller).

4. It modifies the 365-day restriction under current law with respect to carry-overs. Under current law, a contribution to an account in excess of the maximum deduction amount may be carried forward to future taxable years, but the carry-over is not allowed if the carry-over amount was withdrawn from the account within 365 days of the day on which the amount was contributed to the account and if the amount was previously deducted from

income. The bill limits the 365-day restriction with respect to carry-overs to apply only to withdrawn amounts that were rolled over to the account from another state's qualified tuition program.

This provision will produce a revenue loss because it allows additional contributions to be deducted from income. Under the provision, a person could make a deductible contribution and withdraw the amount in the same year. If individuals are unable to use the entire deduction in the taxable year, the provision will allow them to carry-over the excess to future years. It is unclear the extent to which the provision will reduce revenue because it is unclear how many people will contribute to an account specifically for the deduction rather than for the incremental earnings from saving for an extended period of time.

If individuals described in the example under provision 3) are not able to use the entire deduction in the taxable year, this provision will allow them carry-over the excess to be used in future years.

5. It requires the use of a first in, first out method of accounting for purposes of the 365-day restrictions described under items 3 and 4 and for purposes of other additions to income under current law that relate to account withdrawals.

This provision codifies current DOR administrative practice, so the department does not anticipate a separate fiscal effect.

6. The federal Tax Cuts and Jobs Act of 2017 amended the definition of "qualified higher education expense" under federal law for purposes of state qualified tuition programs. Under the current federal definition, 529 accounts may be used to pay for expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school. The bill modifies the definition of "qualified higher education expense" in the state individual income tax law to conform to the definition under federal law. The bill also modifies an administrative rule of DFI to conform that definition to federal law.

The provision clarifies current law, so the department does not anticipate a separate fiscal effect.

In summary, provision 1) reduces revenue by approximately \$3.1 million annually, provisions 2), 5), and 6) do not have notable revenue impacts, and provisions 3) and 4) reduce revenue by unknown amounts.

### **Long-Range Fiscal Implications**

## Fiscal Estimate Worksheet - 2019 Session

Detailed Estimate of Annual Fiscal Effect

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<b>Description</b> modifying the individual income tax treatment for contributions to and withdrawals from a college savings account and modifying an administrative rule of the Department of Financial Institutions related to the college savings program			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
	State Operations - Salaries and Fringes	\$	\$
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	<b>TOTAL State Costs by Category</b>	<b>\$</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
	GPR		
	FED		
	PRO/PRS		
	SEG/SEG-S		
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$See Text	\$

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**Date**

1/24/2020