STATE OF WISCONSIN

REPORT OF THE JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS

2003 ASSEMBLY BILL 209

[Introduced by Representatives Kreibich, Jeskewitz, Miller, Hahn, Gronemus, Van Roy, Krawczyk, M. Lehman, Hines, Lemahieu, Musser, Seratti, Owens, Grothman, Ainsworth, Freese, Gunderson, Bies, Ott, Shilling, Towns, Cullen, McCormick, Vrakas, J. Fitzgerald, Coggs, Olsen, Suder, Lassa, and Pettis, cosponsored by Senators Darling, Schultz, Stepp, Harsdorf, Kedzie, Roessler, Wirch, and Breske.]

General Nature of Proposal

Under current law, the state offers two "EdVest" programs that allow families to save for a college education. Under the "EdVest 1" program, a contributor may purchase "tuition units" that can be used to pay qualified educational costs on behalf of a beneficiary. The purchase of such units is limited to parents, grandparents, aunts, uncles, legal guardians, trusts created on behalf of a beneficiary, or individuals purchasing units for their own use. Contributions to an account may be deducted from a contributor's income in the calculation of his or her state income taxes up to the amount of $3,000 each year and only if the beneficiary is one of the following: (1) the claimant; (2) the claimant's child and the claimant's dependent; or (3) the claimant's grandchild.

The state also offers "EdVest 2," under which anyone may open a college savings account for a prospective student, regardless of the contributor's relationship to the beneficiary. Contributors may open accounts for themselves, and a prospective student may be the beneficiary of more than one college savings account. Contributions made to an account set up under the program, up to a limit of $3,000 each year for each beneficiary, may be deducted from a contributor's income in the calculation of his or her income taxes if the beneficiary of the account is one of the following: (1) the claimant; (2) the claimant's child and the claimant's dependent; or (3) the claimant's grandchild.

Under the bill, an income tax deduction for amounts contributed to either EdVest program may be claimed by a great-grandparent, an aunt, or uncle of the beneficiary, subject to the same limits and conditions that exist under current law.

The bill does not modify the limitations under current law which provide deductions claimed under either EdVest program, per beneficiary, by any claimant may not exceed $3,000 each year and, in the case of a married couple filing a joint return, the total annual deduction under the two programs, per beneficiary, claimed by the married couple may not exceed $3,000 each year.

Legality Involved

There are no questions of legality involved.

Fiscal Effect Upon the State and Its Subdivisions

The Department of Revenue has estimated the fiscal effect upon the state as follows:

According to EdVest, aunts, uncles, and great-grandparents opened about 600 new accounts in 2002. Assuming an additional 600 new accounts are opened annually by aunts, uncles, and great-grandparents, contributions made to these accounts would be about $430,000 annually. Assuming an effective marginal tax rate of 5.5%, the fiscal effect of this bill would be about $24,000 ($430,000 x .055).

The fiscal effect may be slightly understated, as the data does not include the Tomorrow's Scholar accounts portion of the EdVest program. More than 95% of all Tomorrow's Scholar accounts are owned by non-residents and the revenues impact to the state is minimal.

The Department would incur minimal administrative costs that could be absorbed within the agency's budget.

Public Policy Involved

The bill is good public policy.