



**Fiscal Estimate Narratives**  
**DOR 3/2/2005**

|   |                                  |                               |
|---|----------------------------------|-------------------------------|
| LRB Number <b>05-0956/1</b>   | Introduction Number <b>AB-31</b> | Estimate Type <b>Original</b> |
| <b>Subject</b><br>Individual income tax deduction for contributions to out of state |                                  |                               |

**Assumptions Used in Arriving at Fiscal Estimate**

Under current law, up to \$3,000 of contributions to an EdVest II account per beneficiary may be deducted from Wisconsin adjusted gross income (WAGI) if the beneficiary of the account is the claimant, the claimant's child and dependent, the claimant's grandchild, the claimant's great-grandchild, or the claimant's niece or nephew. EdVest II is Wisconsin's version of a qualified tuition program that is authorized under section 529 of the federal Internal Revenue Code. This bill would expand the income tax deduction to contributions to the section 529 plan of any state.

According to limited information received from the College Savings Plans Network and the college savings plan programs in several states, about 0.75% of the total section 529 accounts in each state, other than Wisconsin, are owned by Wisconsin residents. Therefore, Wisconsin residents own an estimated 52,000 section 529 accounts in states other than Wisconsin. The average annual contribution made by parents to an EdVest account is \$2,100. Assuming that each of the 52,000 account owners annually contribute \$2,100 to an account, under the proposed bill, \$109.2 million (52,000 X \$2,100) in contributions would be excluded from income. Assuming an average marginal tax rate of 5.6%, this would result in a decrease in income tax revenue of \$6.1 million (\$109.2 million X .056).

**Long-Range Fiscal Implications**

According to EdVest, there are many requests from EdVest account owners to move their contributions to the Virginia program, the largest section 529 program. This may be a sign that encouraging investments in the section 529 plans of other states could lead to a decrease in participation in the Wisconsin program over time.

The proposed bill would provide an incentive for Wisconsin residents to invest in section 529 plans in other states; as a result, the number of accounts held by Wisconsin taxpayers would increase. The number of these accounts is also expected to increase with the growing popularity of these accounts. If both of these scenarios occur, the revenue loss could grow substantially in future years.

## Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

|  |  |  |                     |
|--|--|--|---------------------|
| <b>LRB Number</b> 05-0956/1  |  | <b>Introduction Number</b> AB-31               |                     |
| <b>Subject</b>   |  |  |                     |
| Individual income tax deduction for contributions to out of state  |  |  |                     |
| <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, ets.)</b> |  |  |                     |
|  |  | Increased Rev                                  | Decreased Rev       |
| GPR Taxes  |  | \$   | \$-6,100,000        |
| GPR Earned   |  |  |                     |
| FED  |  |  |                     |
| PRO/PRS  |  |  |                     |
| SEG/SEG-S  |  |  |                     |
| <b>TOTAL State Revenues</b>  |  | <b>\$</b>                                      | <b>\$-6,100,000</b> |
| <b>NET ANNUALIZED FISCAL IMPACT</b>  |  |  |                     |
|  |  | <u>State</u>                                   | <u>Local</u>        |
| NET CHANGE IN COSTS  |  | \$   | \$                  |
| NET CHANGE IN REVENUE  |  | \$-6,100,000                                   | \$                  |
| <b>Agency/Prepared By</b>  |  | <b>Authorized Signature</b>                    | <b>Date</b>         |
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