

Fiscal Estimate Narratives

DOR 2/25/2022

LRB Number	21-0463/3	Introduction Number	AB-1018	Estimate Type	Original
Description modifying the tax treatment of college savings accounts and the employee college savings account contribution credit					

Assumptions Used in Arriving at Fiscal Estimate

This bill modifies the individual income tax treatment for contributions to and withdrawals from college savings accounts and the employee college savings account contribution credit.

CONTRIBUTIONS AND WITHDRAWALS FROM COLLEGE SAVINGS ACCOUNTS

The bill makes the following changes to the state individual income tax treatment for contributions to and withdrawals from 529 accounts:

1. Increases the maximum amount that may be deducted. Under current law, the maximum amount that a contributor may deduct is annually indexed for inflation and, in 2021, is \$3,380, which is reduced to \$1,690 for a married individual filing a separate return or, in the case of divorced parents, each former spouse. The bill increases these amounts to \$5,000 and \$2,500, which are indexed annually for inflation, and repeals the limitation for divorced parents.

Based on an analysis of existing college savings account claims, increasing the maximum amount that may be deducted will reduce revenue by approximately \$2.4 million annually, beginning in fiscal year 2023. The change in the cap is not expected to affect contributions for individuals who contribute less than the current maximum or more than the maximum under the bill.

2. Requires the use of a first in, first out method of accounting for purposes of provisions in current law requiring that account withdrawals be added to income for state tax purposes and restricting carry-overs of contributions in excess of the maximum deduction threshold if the carry-over amount was withdrawn from the account within 365 days of being contributed.

This provision conforms to current administrative practice and will not result in any additional fiscal effect.

3. Conforms the definition of "qualified higher education expense" to federal law. In recent years, the federal definition of "qualified higher education expense" has been expanded to include tuition expenses for elementary and secondary schools, expenses for apprenticeship programs, and qualified education loan repayments. The bill conforms state law to the federal definition.

The provision clarifies current law, so the department does not anticipate a separate fiscal effect. Because the provision conforms to federal law, Wisconsin will automatically adopt any future changes made to the referenced federal sections.

EMPLOYEE COLLEGE SAVINGS ACCOUNT CONTRIBUTION CREDIT

Additionally, the bill modifies the tax credit that may be claimed by an employer for contributions to an employee's 529 account. Under current law, the maximum credit per employee is 25 percent of the amount the employer contributes to the 529 account, up to a maximum contribution that is 25 percent of the maximum amount that an individual contributor may deduct under state law. For 2021, the maximum credit is \$211.25 per employee. Under the bill, the maximum credit per employee is 50 percent of the amount the employer contributes to the 529 account, not exceeding a maximum credit of \$800, adjusted annually for inflation. The bill also specifies that sole proprietors may claim the credit and that the credit may only be claimed for a contribution to an employee's 529 account if the employee's compensation is reported, or required to be reported, on a W-2 form issued by the employer.

The existing employer contributions credit has generated minimal claims and reduced revenue by marginal

amounts. As such, increasing the amount of the credit for existing employer contributions would result in a minimal revenue loss. However, to the extent that allowing sole proprietor claims creates a new pool of credits, the fiscal impact will be larger.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2021 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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