# Fiscal Note

**BILL #** SB 1349

**TITLE:** ~~family college savings program; treasurer~~
NOW: family college savings program

**SPONSOR:** Livingston

**STATUS:** As Amended by House Education

**PREPARED BY:** Sam Beres

**Description**

The bill would conform Arizona to recent federal changes to 529 college savings plans.

**Estimated Impact**

The revenue loss associated with the bill will depend on whether additional taxpayers choose to make use of 529 savings plans as a result of the newly allowable uses of withdrawals from these accounts. Based on a simplifying set of assumptions, the JLBC Staff assumes that the number of households making deposits into these plans would increase by 5%, which would result in a General Fund revenue loss of $(438,700) annually. This estimate is highly speculative.

The Department of Revenue (DOR) has not provided an estimated cost of the bill.

**Analysis**

Under current law, taxpayers are eligible to receive tax benefits when utilizing 529 savings plans to save for their children's higher education expenses. These plans allow for federal and state tax free withdrawals for qualified educational expenses. In addition, Arizona taxpayers are able to deduct up to $2,000 in annual <u>contributions</u> to a 529 plan (or $4,000 if married and filing jointly) from their state taxable income. That deduction is not changed by this bill.

Previously, monies saved in these accounts could only be withdrawn for college expenses. The federal Tax Cuts and Jobs Act (TCJA), which was enacted in December 2017, made several changes to the federal treatment of these plans. Under the new law, up to $10,000 per year may be withdrawn for qualified elementary or secondary education expenses. In addition, the law permits tax-free rollovers from 529 plans to Achieving a Better Life Experience (ABLE) accounts to fund expenses for disabled individuals.

The bill would conform Arizona to these new federal changes. The additional flexibility of being able to use 529 plans for elementary and secondary education expenses and the ability to roll over account balances into ABLE accounts may lead to increased contributions to 529 savings plans. To the extent that additional taxpayers chose to make contributions to these plans as a result, there would be a General Fund revenue loss due to increased deductions.

A 2016 Federal Reserve report estimated that 2.5% of all households had 529 savings accounts in 2013, the last year for which the report provided data. There are expected to be 2,915,000 Arizona tax filers in tax year 2019, which includes both single filers and married couples. Assuming that 2.5% of these filers have 529 savings plans, 72,900 Arizona households are estimated to have 529 plans.

It is difficult to estimate the number of additional households that may open a 529 savings plan as a result of the newly allowable uses for these accounts. However, as an illustrative example, the JLBC Staff has assumed that the number of households contributing to 529 plans would increase by 5%, or 3,600, as a result of the bill. Married couples filing jointly, who are eligible for a deduction of $4,000, represented 38.8% of all filers in tax year 2015, the last year for which data is available. The remaining 61.2% of taxpayers would be eligible for a deduction of $2,000. Based on this data, we estimate that the average maximum deduction would be $2,776.

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Assuming 3,600 households opened new 529 plans and made an average deductible contribution of $2,776 annually, there would be $10.0 million of additional state tax deductions annually. Assuming that these taxpayers pay an average top marginal rate of 4.39% (a combination of the top 2 marginal tax rates), this would result in an annual General Fund revenue loss of $(438,700) beginning in FY 2020.

**Local Government Impact**

Incorporated cities and towns and cities receive 15% of state income tax collections from 2 years prior from the Urban Revenue Sharing Fund (USRF) established by A.R.S § 43-206. Therefore, under the illustrative example described above, local revenues would be reduced by $(65,800) beginning in FY 2022.

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4/11/19