

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 213 (Senator Brochin)
 Budget and Taxation

**Maryland College Investment Plan - State Contribution to Account Holders -
 Alterations**

This bill increases the State matching contribution for eligible college savings accounts from \$250 to \$2,000, provided that existing minimum contribution amounts are met by account holders. The Governor must appropriate in the budget bill an *additional* \$7.0 million in fiscal 2019 and an additional \$10.0 million annually thereafter for the State matching contributions, bringing the total mandated funding to \$14.0 million in fiscal 2019 and \$20.0 million annually thereafter.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund expenditures increase by \$7.0 million in FY 2019 and \$10.0 million annually thereafter to provide additional funding for State matching contributions. The Maryland 529 Board (formerly the College Savings Plans of Maryland Board) can implement the bill with existing resources. General fund revenues may decrease significantly beginning in FY 2018 from additional subtraction modifications, as discussed below. The Governor’s proposed FY 2018 budget includes \$5.0 million for matching contributions and \$100,000 for the board’s implementation costs associated with the matching program. **This bill increases a mandated appropriation beginning in FY 2019.**

| (in dollars) | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|----------------|---------|---------------|----------------|----------------|----------------|
| GF Revenue | (-) | (-) | (-) | (-) | (-) |
| GF Expenditure | \$0 | \$7,000,000 | \$10,000,000 | \$10,000,000 | \$10,000,000 |
| Net Effect | (-) | (\$7,000,000) | (\$10,000,000) | (\$10,000,000) | (\$10,000,000) |

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local government revenues decrease by 3% of the total amount of subtraction modifications caused by the bill beginning in FY 2018, as discussed below. The amount cannot be reliably estimated. Expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law/Background: As part of a multifaceted approach to address the affordability of higher education, the College Affordability Act of 2016 (Chapters 689 and 690) established a State matching contribution of \$250 per beneficiary for new accounts in the Maryland College Investment Plan administered by the 529 Board. For investment accounts established under the plan *after* December 31, 2016, a State matching contribution may be made to an investment account if:

- the qualified beneficiary of the investment account is a Maryland resident;
- the account holder submits an application to the board or its designee between January 1 and June 1 of each year; and
- the account holder has Maryland taxable income less than or equal to \$112,500 for an individual or \$175,000 for a married couple filing a joint return in the previous taxable year.

The State matching contribution is \$250 per beneficiary. The minimum contribution necessary to receive a State matching contribution varies with Maryland taxable income, as shown in **Exhibit 1**. An account holder who has been approved by the board to receive a State matching contribution must make a contribution between July 1 and November 1 in order to qualify for the State contribution each year. The State matching contribution must be made by the end of the calendar year in which the account holder made the contribution.

An application may be made in person, online, or by mail; however, the board may not charge a fee for the application. The board is required to establish a list of necessary documentation and establish other specified procedures.

The Governor must appropriate at least \$5.0 million in fiscal 2018, \$7.0 million in fiscal 2019, and \$10.0 million annually thereafter for State matching contributions. If funding provided in a fiscal year is not sufficient to fully fund all State contributions, the board must provide contributions in the order in which applications are received and give

priority to applications of account holders who did not receive a contribution in any prior year.

Exhibit 1
Minimum Annual Contribution to Receive State Match, per Beneficiary
By Maryland Taxable Income

| <u>Filing Status</u> | | <u>Minimum Contribution</u> |
|-----------------------|-------------------------------|-----------------------------|
| <u>Single</u> | <u>Married Filing Jointly</u> | |
| Less than \$50,000 | Less than \$75,000 | \$25 |
| \$50,000 to \$87,499 | \$75,000 to \$124,999 | \$100 |
| \$87,500 to \$112,500 | \$125,000 to \$175,000 | \$250 |

Source: Department of Legislative Services

An investment account holder is not eligible for the existing subtraction modification for contributions to an investment account (generally \$2,500 per beneficiary) in any taxable year in which the account holder receives a State contribution. However, the State contribution is excluded from the account holder's taxable income for State income tax purposes.

State Fiscal Effect: Generally, the bill increases the State matching contribution by \$1,750 per beneficiary for eligible investment account holders who make contributions sufficient to trigger the State match beginning July 1, 2017.

As noted above, if funding in a fiscal year is not sufficient to fully fund all State contributions, the 529 Board must provide contributions in the order in which applications are received and give priority to applications of account holders who did not receive a contribution in any prior year. The bill increases the amount of the State match by 800% but only doubles the required minimum level of funding after fiscal 2018. Therefore, the bill makes it more likely that some accounts will not receive matching contributions in a given year, relative to current law.

The Department of Legislative Services notes that, under current law, the minimum amount of required funding is sufficient to provide matching contributions for 20,000 beneficiaries in fiscal 2018, 28,000 in fiscal 2019, and 40,000 in fiscal 2020 and subsequent years. Under the bill, that number drops to 2,500 in fiscal 2018, 7,000 in fiscal 2019, and 10,000 annually thereafter. Assuming the program is fully subscribed each year, some individuals who would have received a matching contribution under current law will not receive a matching contribution under the bill. A portion of these individuals are likely to

instead take a subtraction modification for the same tax year, reducing general fund revenue beginning in fiscal 2018. The amount cannot be reliably estimated but may be as much as \$1.0 million or more annually.

Local Revenues: As noted above, some individuals who would have received a matching contribution under current law will not receive a matching contribution under the bill and are likely to instead take a subtraction modification for the same tax year. Therefore, local government revenues decrease by 3% of the total amount of subtraction modifications caused by the bill beginning in fiscal 2018. The amount cannot be reliably estimated.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): College Savings Plans of Maryland; Department of Budget and Management; Department of Legislative Services

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