

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 902 (Delegate Rose, *et al.*)
 Ways and Means

Income Tax - Subtraction Modification - College Savings Plan Contributions

This bill expands from \$2,500 to \$5,000 the maximum value of the college savings plan and Maryland Prepaid College Trust income tax subtraction modifications. **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$9.5 million in FY 2020 as a result of additional subtraction modifications claimed against the personal income tax. Future year revenues reflect the estimated amount of eligible contributions. Expenditures are not affected.

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	(\$9.5)	(\$9.7)	(\$9.9)	(\$10.1)	(\$10.3)
Expenditure	0	0	0	0	0
Net Effect	(\$9.5)	(\$9.7)	(\$9.9)	(\$10.1)	(\$10.3)

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

Local Effect: Local revenues decrease by \$6.0 million in FY 2020 and by \$6.5 million in FY 2024. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law/Background:

Federal Tax Benefits and 529 Plans

Qualified tuition plans, also known as 529 plans, are state programs that allow an individual to either prepay or contribute to an account established for paying a student's qualified higher education expenses. Accounts and plans must satisfy the income tax and transfer rules established under Section 529 of the Internal Revenue Code.

Contributions are not deductible for federal tax purposes; however, amounts deposited in the account grow tax free and distributions are not subject to federal or state taxes if the distributions are used for the qualified higher education expense of a beneficiary. These tax advantages are similar to the federal tax treatment of Roth IRAs.

The federal Tax Cuts and Jobs Act of 2017 (Public Law 115-97) was signed into law on December 22, 2017, and expands the permissible use of 529 plans by amending "qualified higher education expense" to include expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school. An account holder can withdrawal up to \$10,000 in each year for expenses associated with enrollment at these schools. The federal Act applies to distributions made after December 31, 2017.

Maryland 529 Plans and State Tax Benefits

The College Savings Plans of Maryland Board currently operates two qualified tuition plans: the Maryland Prepaid College Trust and the Maryland College Investment Plan. Chapter 548 of 2008 authorized the board to establish a third plan, the Maryland Broker-Dealer College Investment Plan, but the board has yet to do so. The Maryland Prepaid College Trust currently operates plans for 12 institutions under the University System of Maryland, Morgan State University, and St. Mary's College of Maryland.

In addition to the federal tax benefits available to 529 plans, the State allows a person to claim a subtraction modification for the advanced amount of tuition payments made to the Maryland Prepaid College Trust or amount contributed to the Maryland College Investment Plan. The subtraction modification claimed by a taxpayer may not exceed \$2,500 for each contract purchased (Maryland Prepaid College Trust) or \$2,500 per beneficiary (Maryland College Investment Plan). This limitation is increased to \$5,000 for married individuals who file jointly if each spouse contributes to a plan.

Any unused amount of the subtraction modification can be carried forward to future tax years until the full amount of the excess is used under the Maryland Prepaid College Trust and up to 10 tax years for contributions to the Maryland College Investment Plan.

An investment plan account holder is not eligible for the subtraction modification for contributions to an investment account in any year in which the account holder receives funds under the State Contribution Program.

State Revenues: Beginning in tax year 2019 the bill expands from \$2,500 to \$5,000 the maximum value of the college savings plan and Maryland Prepaid College Trust income tax subtraction modifications. As a result, general fund revenues may decrease by an estimated \$9.5 million in fiscal 2020. **Exhibit 1** shows the projected State and local revenue loss from increasing the maximum value of the subtraction modifications.

Exhibit 1
Projected State and Local Revenue Loss
(\$ in Millions)

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
State	(\$9.5)	(\$9.7)	(\$9.9)	(\$10.1)	(\$10.3)
Local	(6.0)	(6.1)	(6.2)	(6.4)	(6.5)
Total	(\$15.5)	(\$15.8)	(\$16.1)	(\$16.5)	(\$16.8)

The estimated revenue loss due to the increased college savings plan subtraction modification reflects the estimated impact of recent federal legislation that expands 529 eligibility to certain K-12 schools.

Local Revenues: Local income tax revenues decrease by about 3% of the total net State subtraction modifications claimed. Local revenues will decrease by \$6.0 million in fiscal 2020 and by \$6.5 million in fiscal 2024, as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Department of Legislative Services

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an/hlb

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