

ERIC EBERSOLE
Legislative District 12
Baltimore and Howard Counties

DEPUTY MAJORITY WHIP

Ways and Means Committee

Chair
Early Childhood Subcommittee



The Maryland House of Delegates
6 Bladen Street, Room 305
Annapolis, Maryland 21401
410-841-3328 · 301-858-3328
800-492-7122 Ext. 3328
Eric.Ebersole@house.state.md.us

THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

In Support – HB 1066 - Income Tax - 529 College Investment Plans - Elementary and Secondary Education Expenses

Chair Kaiser, Vice Chair Washington and members of the Ways & Means Committee:

Thank you for the opportunity to offer testimony on HB 1066.

A 529 plan, referenced in this legislation, is the most common name for a variety of college savings plans. These plans were conceived to allow families to save for the future expense of college with the contributions to the fund being deductible from taxable income and not being taxed when drawn out and used for the intended purpose.

Changes made to the federal tax code expanded the acceptable use of these funds to also be applied to K-12 tuition. This allows for significant changes:

- The money saved in these accounts can be used almost immediately after it is saved by families with children. Therein, it does not become a savings plan for the future so much as a transfer of money in and out of an account to avoid paying taxes on it. In essence it creates a tax loophole.
- In as much as there is almost no situation where money would be used for K-12 public tuition, it creates a tax free tuition pathway focused on non-public education only. The comptroller estimates that it will result in an annual \$20 million reduction in revenue to the state and over \$10 million reduction in revenue locally.

Additionally, in my research on this subject, I have also discovered an inconsistency in the application of the 529 plan. There is currently NO mechanism to verify that money withdrawn from such a plan is actually used for a qualified educational expense.

This legislation, then, will do two things:

- 1) It will close the \$30+ million loophole created by the expansion of the tax shelter on education expenses to k-12 non-public school tuition. This bill would apply Maryland income tax to money saved in one of these plans if it was subsequently used on K-12 tuition (or another unqualified expense). It would help to return these savings plans to their original focus of encouraging long term savings for post-secondary education of all students..
- 2) At a more basic level, it will create accountability that did not previously exist, potentially capturing additional revenue from income that previously went unreported. I have worked with the Comptroller's office to create language that would add a line to the Maryland tax form where a taxpayer must claim, under the oath at the end of the form, how they used the withdrawn funds. If they used them for an unqualified expense, they would add the amount to their taxable income on the form. There is also language to require the investment firm to report the withdraw for the purpose of a potential audit by the Comptroller's office..

I urge you to give this bill a favorable report and restore some fairness to education access and spending in Maryland.

Thank you,

Eric Ebersole