

**INDIVIDUAL INCOME TAX**  
Subtraction for Education Savings Plans

April 13, 2001

	<b>Yes</b>	<b>No</b>
Separate Official Fiscal Note Requested		<b>X</b>
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings	<b>X</b>	

Department of Revenue  
Analysis of S.F. 2112 (Reiter)

	<b>Revenue Gain or (Loss)</b>			
	<b>F.Y. 2002</b>	<b>F.Y. 2003</b>	<b>F.Y. 2004</b>	<b>FY2005</b>
		(000's)		
General Fund	(\$1,250)	(\$1,300)	(\$1,500)	(\$1,700)

Effective beginning with tax year 2001.

**EXPLANATION OF THE BILL**

**Current Law:** Currently Minnesota conforms to federal law concerning education IRAs.

**Proposed Law:** The proposal would allow a subtraction for contributions to and income earned on educational savings plan accounts, which must be created as financial institutions trusts, invested under certain restrictions and distributed under prescribed conditions. Sanctions and penalties are provided. Maximum contributions are \$10,000 per year and \$75,000 for all years.

**REVENUE ANALYSIS DETAIL**

- The 1998 Individual Income Tax Sample was used to get a distribution of returns with dependents by income and this was then grown by 9.2% to match the growth set for the HITS model.
- It was assumed that only households with incomes over \$30,000 annually would participate in using higher education trusts as investment vehicles.
- The participation percentage was assumed to increase somewhat with income but remain fairly low overall, as there are many competing ways to invest money, and some of them also provide federal tax benefits.
- Contribution amounts were graduated from an average of \$100 to an average of \$1,000.
- Estimates were increased by 5% for each succeeding year to account for increased participation plus an additional 5% to account for the growth attributable to investment income.
- An average marginal rate of seven percent was applied.

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**NUMBER OF TAXPAYERS AFFECTED:** An estimated 50,000 returns in the first year.

**ADMINISTRATIVE/OPERATIONAL IMPACT**

Because the department is currently formalizing a reengineered process for the income tax, the operational impact of this provision cannot be precisely estimated. However, there will be some administrative costs associated with adding a new subtraction.

Source: Minnesota Department of Revenue  
Tax Research Division  
<http://www.taxes.state.mn.us/polic.html#analyses>

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