

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX College Savings Plans

March 13, 2007

Department of Revenue
Analysis of S. F. 974 (Michel) / H. F. 1378 (Paulsen)

	Yes	No
DOR Administrative Costs/Savings		X

	Fund Impact			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
			(000's)	
General Fund	(\$5,800)	(\$6,700)	(\$7,400)	(\$8,100)

Assumed effective beginning with tax year 2007.

EXPLANATION OF THE BILL

Current Law: The Minnesota College Savings Plan is a qualified state tuition plan under Section 529 of the Internal Revenue Code. A qualified tuition plan allows a taxpayer to make contributions to an account that is established for the higher education expenses of a designated beneficiary. Earnings on the account are not taxed as they accrue, and distributions used for qualified higher education expenses are excluded from income. Under current Minnesota law, the income exclusion is in effect through 2010, whereas recent federal legislation removed the sunset date and made the exclusion permanent.

A contribution may be eligible for a matching grant from the State of Minnesota. The minimum contribution is \$200, and the beneficiary's family must be Minnesota residents with income less than \$80,000. The matching grant is 15% of the contribution if the family income is \$50,000 or less and 5% for income from \$50,000 to \$80,000, up to a maximum grant of \$300. The matching grant is available to the beneficiary when funds are distributed from the account for qualified higher education expenses.

Proposed Law: For purposes of the individual income tax, the proposal would allow a subtraction from taxable income for contributions to the Minnesota College Savings Plan. The maximum subtraction would be \$10,000 for a married-joint return and \$5,000 for all other filers.

REVENUE ANALYSIS DETAIL

- The estimate is based primarily on information provided by the Minnesota Office of Higher Education. In 2004, 15,110 account owners made contributions of \$92 million, and, in 2005, 17,183 owners made contributions of \$95.7 million. Minnesota residents account for 78% of the contributions.
- The estimates were calculated using 2005 as the base year. In 2005, 1,889 account owners made contributions between \$5,000 and \$10,000, and 2,298 made contributions of \$10,000 or more. It was assumed that the average contribution between \$5,000 and \$10,000 was \$7,500, and that the average contribution for those contributing over \$10,000 was \$15,000.

REVENUE ANALYSIS DETAIL (Continued)

- It was assumed that 70% of the account owners were married filing a joint return.
- An average marginal tax rate of 7.2% was used.
- The current-law forecast of contributions for 2006 through 2011 was provided by TIAA-CREF, which is the Minnesota College Savings Plan vendor.
- Participation in the program may increase due to the availability of the deduction. For this reason, the estimate for tax year 2007 was increased by 5% and for subsequent years by 10%.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: In 2005, approximately 13,400 Minnesota residents made contributions to Minnesota College Savings Plan accounts.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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