

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Section 529 Plan Subtraction

March 13, 2014

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 1955 (Erhardt) / S.F. 1834 (Clausen)

	<u>Fund Impact</u>			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
			(000's)	
General Fund	\$0	(\$9,900)	(\$10,200)	(\$10,500)

Effective beginning in tax year 2014.

EXPLANATION OF THE BILL

Current Law: A Section 529 qualified tuition plan allows a taxpayer to make contributions to an account that is established for the higher education expenses of a designated beneficiary. Account earnings are not taxed as they accrue, and distributions used for qualified higher education expenses are excluded from income. All states offer qualified tuition plans, and individuals may make contributions to any state's plan or multiple plans regardless of residence.

Proposed Law: The bill would allow an individual income tax subtraction for contributions to a qualified college savings plan, not including amounts rolled over from other college savings plan accounts. The maximum subtraction would be \$10,000 for married couples filing joint returns and \$5,000 for all other filers.

REVENUE ANALYSIS DETAIL

- The estimates are based primarily on information provided by the Minnesota Office of Higher Education from TIAA-CREF, which administers the Minnesota College Savings Plan.
- In 2012, 20,152 account owners made contributions to the plan totaling \$96.1 million.
- Minnesota residents account for 85.6% of those contributors. An additional 5% are assumed to be nonresidents who file Minnesota income tax returns. So about 18,300 contributors to the MN College Savings Plan would be eligible for the subtraction.
- Of those, 70% (about 12,800) are assumed to be married joint filers.
- In 2012, about 89.5% of contributors (11,400 married joint filers) made contributions of \$10,000 or less. Their average contribution was \$2,234.
- The remaining 10.5% (1,300 married joint filers) contributed \$26,530 on average. For those filers the subtraction would be capped at \$10,000.
- The total subtractions for married joint filers would be an estimated \$39 million.

REVENUE ANALYSIS DETAIL (Cont.)

- For the remaining 30% of filers (about 5,500), the subtraction would be capped at \$5,000. About 78% of contributors in 2012 (4,300 filers) contributed less than \$5,000. Their average contribution was \$1,531.
- The remaining 22% (1,200 filers) contributed more than \$5,000, about \$16,290 on average. Their subtraction would be capped at \$5,000.
- The total subtractions for non-married joint filers would be an estimated \$12.6 million.
- Minnesota taxpayers contributing to qualified savings plans of other states also would be eligible for the subtraction. The Minnesota College Savings Plan is a direct-sold plan, while about half of all contributions to 529 plans are through a broker, according to Financial Research Corporation. In addition, Minnesota residents could contribute to other direct-sold plans. It is assumed that contributions to the Minnesota College Savings Plan account for 40% of total eligible contributions.
- A marginal tax rate of 7.2% was used.
- College Savings Plan contributions are projected to grow at 3.2% annually and the number of participants is projected to grow at 2.8% annually, according to TIAA-CREF. Those growth factors were used in this analysis.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: About 45,000 in tax year 2014.

Source: Minnesota Department of Revenue
Tax Research Division
[www.revenue.state.mn.us/research_stats/Pages/
Revenue-Analyses.aspx](http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx)