

March 27, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 2642 (Gomez)

	Fund Impact			
	<u>F.Y. 2020</u>	<u>F.Y. 2021</u>	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>
		(000's)		
Repeal 529 Subtraction	\$4,300	\$4,400	\$4,600	\$4,700
Appropriation to Higher Ed Commissioner	\$0	(\$4,300)	(\$4,400)	(\$4,600)
General Fund Total	\$4,300	\$100	\$200	\$100

Effective beginning with tax year 2019.

EXPLANATION OF THE BILL

Current Law: A subtraction from federal taxable income is allowed for qualified contributions to a Section 529 college savings plan. The maximum subtraction is \$3,000 for married joint filers and \$1,500 for all other filers. The subtraction is limited to returns that do not claim the Section 529 plan credit.

Proposed Law: The bill would repeal the subtraction for contributions to a Section 529 plan. The revenue gain from the repeal is appropriated to increase student grants through the state grant program administered by the Commissioner of Higher Education. The Department of Revenue must estimate the revenue gain from the repeal and provide the estimate to the Minnesota Management and Budget Office by June 30 of each year, beginning in 2020. That amount must be appropriated to the Commissioner of Higher Education on July 1. The first appropriation would occur on July 1, 2020, based on the revenue gain in tax year 2019.

REVENUE ANALYSIS DETAIL

- The estimate is based on information from income tax returns filed in Minnesota for tax year 2017. There were \$49.0 million in subtractions on roughly 21,600 returns.
- The benefit of the subtraction was calculated for each return claiming the subtraction.
- It is assumed the growth rate of subtractions will be 3.2% annually, based on projections from the Minnesota College Savings Plan.
- Tax year impacts from the repeal are allocated to the following fiscal year. Transfers would begin in fiscal year 2021.

Number of Taxpayers: 23,000 returns would be affected in tax year 2019.

Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research/stats/Pages/Revenue-Analyses.aspx