

April 7, 2021

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Costs/Savings</b>	<b>X</b>	

Department of Revenue  
Analysis of S.F. 1708 (Coleman) As Proposed to be Amended (SCS1708A-1)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2022</u></b>	<b><u>F.Y. 2023</u></b>	<b><u>F.Y. 2024</u></b>	<b><u>F.Y. 2025</u></b>
	(000's)			
General Fund	(\$600)	(\$900)	(\$1,200)	(\$1,300)

Effective beginning with tax year 2021.

**EXPLANATION OF THE BILL**

**Current Law:** Public Law 115-97, known as the Tax Cuts and Jobs Act (TCJA), allows qualified withdrawals from Section 529 plans of up to \$10,000 per year for K-12 tuition. The withdrawals are not taxed federally but are required to be included in taxable income for Minnesota income tax purposes.

**Proposed Law:** The bill repeals the Minnesota addition for Section 529 plan withdrawals. This conforms with the federal law to allow Section 529 plans to be used for K-12 tuition expenses. The bill also modifies the definition of higher education expenses so that withdrawals for K-12 tuition are not subject to the Section 529 plan recapture tax.

**REVENUE ANALYSIS DETAIL**

- The estimate is based on information from a preliminary sample of 2019 returns and other information.
- In 2019, about 480 returns reported additions totaling \$1,200,000. The average addition was about \$2,500. The number of additions is expected to grow substantially as more taxpayers become aware of the federal law change and as new plans accumulate gains.
- There were about 65,700 private school students in Minnesota in the 2019-20 school year, according to the Minnesota Department of Education.
- The number who are beneficiaries of Section 529 plan is unknown.
- This estimate assumes that over time up to 5% of private school tuition would be paid through 529 plans. The benefit of the qualified withdrawals will increase over time, since any gains on the amount of the withdrawal are untaxed.
- An average marginal rate of 7.5% is assumed.
- Tax year impacts are allocated to the following fiscal year.

Minnesota Department of Revenue  
Tax Research Division  
<https://www.revenue.state.mn.us/revenue-analyses>