COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2017 REGULAR SESSION

MEASURE

2017 BR NUMBER **1068** **HOUSE** BILL NUMBER **216**

RESOLUTION NUMBER_____ AMENDMENT NUMBER _____

SUBJECT/TITLE An ACT relating to an income tax deduction for qualified tuition programs.

SPONSOR Representative B. Rowland

NOTE SUMMARY

FISCAL ANALYSIS: ☒ IMPACT ☐ NO IMPACT ☐ INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: ☒ STATE ☐ LOCAL ☐ FEDERAL

BUDGET UNIT(S) IMPACT: _____

FUND(S) IMPACT: ☒ GENERAL ☐ ROAD ☐ FEDERAL ☐ RESTRICTED AGENCY _____ ☐ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2016-2017	2017-2018	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES			($1.84 million) See explanation below
EXPENDITURES			
NET EFFECT			($1.84 million) See explanation below

( ) indicates a decrease/negative

MEASURE'S PURPOSE: The purpose of this measure is to enable families to more easily save money for educational expenses, particularly college tuition, by providing an income tax deduction for contributions made to a 529 education savings account.

PROVISIONS/MECHANICS: This bill amends KRS 141.010 to change the definition of adjusted gross income. Under this bill, in calculating adjusted gross income, taxpayers may deduct up to $4,000 of contributions or purchases made to or through a qualified tuition program (529 plan) organized and operated by the Commonwealth.

FISCAL EXPLANATION: During calendar year 2016, there were 6,987 Kentucky accounts with the Kentucky 529 plan. In that same year, there was a total of $14,134,110 deposited in those accounts, for an average of $2,023 deposited per account.

It is unknown to what extent this measure would change the activity in Kentucky 529 plan accounts, but the purpose is to try to increase participation in these savings accounts. Using various assumptions, it is possible to very generally estimate taxpayers' behavior. For each of the following, we will assume that the deduction reduces the amount taxed at the marginal rate of 5.8 percent.

If the same number of accounts stay open, but each account raises its annual deposit from $2,023 to the tax-deductible limit under this bill of $4,000, there would be a total of $27,948,000 deposited in 529 plans per year. The income tax deduction would result in a loss to general fund revenue of $1,620,984 per year.

If the average deposit stays the same at $2,023 per account, but the number of participants doubles to 13,974, there would be a total of $28,269,402 deposited in 529 plans per year. The income tax deduction would result in a loss to general fund revenue of $1,639,625 per year.

If both the number of accounts and the average deposit increase by half, to 10,481 and $3,035, respectively, there would be a total of $31,809,835 deposited in 529 plans per year. The income tax deduction would result in a loss to general fund revenue of $1,844,970 per year.

This bill does not take effect until calendar year 2018, for which tax returns are not filed until 2019, so there is no fiscal impact in fiscal years 2016–2017 or 2017–2018.

While the response of taxpayers to this measure is indeterminable now, this measure contains language directing the Department of Revenue to report data on this deduction to the Legislative Research Commission annually for evaluation of the effect of the measure. The measure automatically sunsets at the end of calendar year 2021 unless extended by the General Assembly.

DATA SOURCE(S): **LRC Appropriations and Revenue Staff; KHEAA Education Savings Plan Trust.**
PREPARER: **Amit M. Shanker** **NOTE NUMBER**: **45** **REVIEW**: **JRS** **DATE**: **2/17/2017**