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

MEASURE

2017 BR NUMBER **1143** **HOUSE** BILL NUMBER **436**

RESOLUTION NUMBER_____ AMENDMENT NUMBER _____

SUBJECT/TITLE An ACT relating to income tax deductions for education expenses.

SPONSOR Representative A. Wuchner

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			See explanation below
EXPENDITURES			
NET EFFECT			See explanation below

( ) indicates a decrease/negative

MEASURE'S PURPOSE: The purpose of this measure is to an income tax deduction for contributions to the Kentucky Educational Savings Plan Trust (KESPT), Kentucky STABLE accounts, and grandchild educational expenses. The KESPT is Kentucky's 529 college savings plan. Earnings in KESPT are exempt from Kentucky taxes and any withdrawal used for qualified college expenses is exempt from federal income tax. STABLE accounts allow individuals with disabilities the opportunity to save and invest money without losing eligibility for certain public benefits programs, including Medicaid, Supplemental Security Income, or Social Security Disability Insurance. Earnings in STABLE accounts are exempt from federal income tax as long as funds in the account are spent on disability expenses.

PROVISIONS/MECHANICS: Section 1 amends KRS 141.010 to exclude up to $5,000 per taxpayer and dependent, up to $10,000 per return, from adjusted gross income for both contributions to the KESPT and a STABLE Kentucky account.

Section 2 subjects refunded contributions to the KESPT and STABLE accounts to income tax.

Section 3 requires the Department of Revenue to report information on the exclusion in Section 1 to the Legislative Research Commission.

Section 4 defines a STABLE account and exempts investment income in and distributions from the account from taxation.

Section 5 allows a deduction in computing adjusted gross income for educational expenses for grandchildren, up to $1,625 for each grandchild in kindergarten through 6th grade and up to $2,500 for each grandchild in 7th through 12th grade. This section also requires the Department of Revenue to report information regarding the deduction to the Legislative Research Commission.

Sections 6 through 12 amend various sections in KRS Chapters 131 and 141 to allow the Department of Revenue to report information to the Legislative Research Commission regarding tax credits and deductions.

FISCAL EXPLANATION: There are three components to this bill: the KESPT deduction, the STABLE account deduction, and the educational expense deduction.

During calendar year 2016, there were 6,987 KESPT accounts. There was a total of $14,134,110 deposited in these accounts, for an average of $2,023 deposited per account.

It is unknown to what extent this measure would change the activity in KESPT 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 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 of general fund revenue of $1,844,970 per year.

The STABLE Kentucky accounts are relatively new, having been launched on December 13, 2016. There are currently 52 accounts open, with an average account balance of $4,487.09, a median account balance of $373.50, and a total account balance of $233,328.68. Since the program is so new, there is not enough data to make any projections about participation in the future, so the fiscal impact of this component is indeterminable. Notably, the median balance after two months of the program is relatively low ($373.50 out of an annual $5,000 cap on deductible contributions).

There is no data available on the amount of money spent by grandparents on educational expenses, so the fiscal impact of this component is indeterminable. According to the Kentucky Department of Education, there are 655,475 public school K–12 students in Kentucky, and according to Private School Review, there are approximately 72,000 K–12 students in private schools in Kentucky.

DATA SOURCE(S): **LRC Appropriations and Revenue Staff; LRC Economists, Kentucky Department of Education; Kentucky State Treasurer; KHEAA; Private School Review**
PREPARER: **Amit M. Shanker** **NOTE NUMBER**: **119** **REVIEW**: **JRS** **DATE**: **2/23/2017**