

**COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2022 REGULAR SESSION**

MEASURE

2022 BR NUMBER 840

HOUSE BILL NUMBER 103

TITLE AN ACT relating to contributions made to a Kentucky qualified educational expense program.

SPONSOR Representative Jerry Miller

FISCAL SUMMARY

STATE FISCAL IMPACT: YES NO UNCERTAIN

OTHER FISCAL STATEMENT(S) THAT MAY APPLY: ACTUARIAL ANALYSIS
 LOCAL MANDATE CORRECTIONS IMPACT HEALTH BENEFIT MANDATE

APPROPRIATION UNIT(S) IMPACTED: _____

FUND(S) IMPACTED: GENERAL ROAD FEDERAL RESTRICTED _____

FISCAL ESTIMATES	2021-2022	2022-2023	2023-2024	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES		(\$2,098,000)	(\$4,196,000)	(indeterminable)
EXPENDITURES				
NET EFFECT		(\$2,098,000)	(\$4,196,000)	(indeterminable)

() indicates a decrease/negative

PURPOSE OF MEASURE: House Bill 103 allows a deduction for individuals who contribute to a qualified educational expense program as defined in Section 529 of the Internal Revenue Code. Amounts to be deducted by individuals shall not exceed \$5,000 per taxpayer.

Also included in this bill is a nonrefundable tax credit for employers contributing to an employee's Education Savings Plan Trust account. The credit for employers shall be equal to 20% of the total employer's contribution, not exceeding \$500 per employee, per taxable year.

If enacted, this legislation would be effective for taxable years beginning on or after January 1, 2022, but before January 1, 2026.

FISCAL EXPLANATION: There will be a negative fiscal impact to the General Fund. According to the Kentucky Higher Education Assistance Authority (KHEAA), as of November 1, 2021, there were 16,286 active KY Saves 529 accounts. If an individual takes the maximum deduction of \$5,000 in a taxable year, the estimated fiscal impact has the potential to be (\$3,900,000). At this time, Kentucky residents are not contributing the maximum amount of \$5,000. As of November 1, 2021, the average account size was \$16,103.99.

The second part of this proposed legislation offers employers a tax incentive of up to \$500 for each of their employee's accounts to which they contribute. KHEAA estimates that currently, KY Saves 529 has about 200 employers representing 500 accounts participating in employer direct deposits with a 12-month average of \$912,303. The maximum amount of employer credits are estimated to be \$250,000.

The total fiscal impact of these measures, a tax deduction and income tax credit for employers, is estimated to be (\$4,196,000) with the biggest impact being at the tax deduction level. This impact does not consider any behavioral changes which might encourage individuals or employers to begin contributing to new accounts.

DATA SOURCE(S): LRC Staff, KHEAA

PREPARER: Sarah Watts NOTE NUMBER: 30 REVIEW: JAB DATE: 2/3/2022