

# Fiscal Note

**BILL #** SB 1135

**TITLE:** income tax subtraction; 529 contributions

**SPONSOR:** Livingston

**STATUS:** As Introduced

**PREPARED BY:** Benjamin Newcomb

## Description

The bill alters the deduction for contributions to college savings plans established pursuant to section 529 of the Internal Revenue Code (henceforth referred to as 529 plans). These changes would become effective retroactively to January 1, 2021.

## Estimated Impact

We estimate that the bill will have minimal impact on General Fund revenue starting in FY 2022.

As of publication, DOR has not yet provided an estimate for SB 1135.

## Analysis

Under current law, single tax filers may claim a deduction of up to \$2,000 for contributions to 529 plans. Those married filing jointly (MFJ) can claim up to \$4,000 in total deductions from 529 contributions. These deductions are per filer. The bill would allow single filers to claim a deduction of up to \$2,000 per beneficiary, or up to \$4,000 per beneficiary if MFJ, effective in Tax Year 2021.

According to DOR, 28,938 filers claimed approximately \$69.5 million in total 529 subtractions on tax forms in TY 2018, while the maximum amount that could have been subtracted was \$86.7 million. This means that 80% of the maximum allowable subtraction was used. We assumed filers, on average, each made contributions of 80% of the maximum allowable subtraction. This yields average subtraction amounts per filer and per dependent (see *Table 1* below).

<u>Distribution of</u> <b>529 Plans</b>	<u># Returns w/</u> <b>Dependents</b>	<u># Dependents</u>	<u>Maximum Allowable</u> <b>Contribution</b>	<u>Avg. Contribution</u> <u>Assumed by 80% of</u> <b>Maximum Allowed</b>	<u>Avg. 529</u> <b>Subtraction</b>	<u>Avg. 529</u> <b>Subtraction per</b> <b>Dependent</b>
MFJ	14,395	31,116	\$57,578,410	\$46,172,533	\$3,208	\$1,484
HOH	12,463	21,707	\$24,926,043	\$19,988,370	\$1,604	\$921
S	1,878	2,754	\$3,756,634	\$3,012,472	\$1,604	\$1,094
MFS	202	311	\$404,118	\$324,065	\$1,604	\$1,042
<b>TOTAL</b>	<b>28,938</b>	<b>55,888</b>	<b>\$86,665,205</b>	<b>\$69,497,440</b>	<b>\$2,402</b>	<b>\$1,244</b>

Given that the current subtraction per dependent is \$1,244, we believe raising the subtraction to \$2,000/\$4,000 per beneficiary (using dependent as a proxy for beneficiary) would likely have minimal fiscal impact.

## Local Government Impact

Each year, incorporated cities and towns receive 15% of income tax collections from 2 years prior from the Urban Revenue Sharing Fund (URSF) established by A.R.S. § 43-206. We estimate this impact will be minimal.

1/28/21