GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	SB0117		**Title:**	Allow deducitons for other state college savings plans
Primary Sponsor:	Sonju, Jon		**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$32,000	$0	$0	$0
Revenue:				
General Fund	($77,837)	($78,677)	($79,380)	($80,235)
Net Impact-General Fund Balance:	($109,837)	($78,677)	($79,380)	($80,235)

Description of fiscal impact: This bill would expand the Family Education Savings Account exemption to include deposits to out-of-state accounts. This would reduce income tax revenue by approximately $79,000 in FY 2014 with the reduction growing over time.

FISCAL ANALYSIS

Assumptions:

1. Section 529 of the Internal Revenue Code allows states to set up college savings or tuition prepayment programs and exempts earnings on these accounts from federal income tax as long as they are used to pay for qualifying higher education expenses. Title 15, Chapter 62 creates Montana's Family Education Savings Accounts (FESAs), which satisfy the requirements of Section 529.
2. Under current law, earnings withdrawn from a FESA to pay education expenses, and up to $3,000 per year of deposits to a FESA, are excluded from income subject to the Montana income tax. This bill would extend this exemption to include deposits into and withdrawals from any state's Section 529 program, beginning in tax year 2013.
3. On 2011 income tax returns, Montana residents excluded $6,528,702 in FESA deposits and withdrawals. These exemptions reduced tax liability by $429,876.

4. The Montana Family Education Savings Program surveyed programs in other states in 2007 and estimated that Montanans had 2,100 accounts in other states' programs with balances of $35 million. This compared to 14,300 Montana accounts with balances of $199 million. Out-of-state account balances were 17.6% of in-state balances. This fiscal note assumes the exemptions that would be claimed for deposits and earnings on out-of-state accounts if this bill were in effect would be 17.6% of exemptions claimed under current law. It also assumes that the ratio of the tax liability impact to exemptions would be the same for taxpayers with out-of-state accounts as for taxpayers with in-state accounts. With these assumptions, revenue would have been $75,658 lower if this bill had been in effect for 2011.
5. This fiscal note assumes that the impact of this bill will grow in step with the growth of FESA exclusions assumed in the income tax model. The following table shows the tax reduction if this bill had been in effect, the growth of FESA exclusions assumed in the income tax forecast, and the resulting changes in tax liability for 2013 through 2016.

Tax Year	Growth from 2011	Reduced Revenue
2013	2.88%	$77,837
2014	3.99%	$78,677
2015	4.92%	$79,380
2016	6.05%	$80,235

6. The total amount of income excludable under this bill would not change if taxpayers shifted between in-state and out-of-state accounts.
7. The largest change in any individual taxpayer's tax liability due to this bill would be about $200. Most taxpayers would not change their withholding or estimated payments in response to a tax change of this size. Those who would change would be most likely to change the last estimated payment for the year, which is due in January after the end of the year. Other taxpayers would make smaller payments with their returns or receive larger refunds. In either case, the change in state revenue for each tax year would occur in the next higher numbered fiscal year. Thus, general fund revenue would be reduced in FY 2014 through FY 2017 by the amounts shown in assumption #5 for tax years 2013 through 2016.
8. The Department of Revenue receives information every year from the Montana Family Education Savings Program that allows the department to verify deductions claimed on tax returns. The department would not receive equivalent information from other states' programs. The department would need to implement a form for taxpayers to provide this information with their returns. One-time-only costs for development of the form would be $2,000, and changes to the department's data capture and processing systems would cost approximately $30,000. This work would be done in FY 2014 by the system vendors or department employees working overtime. These one-time-only costs could be absorbed within the department's existing operating budget, although costs are reflected in an effort to communicate the actual costs of implementation.

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Fiscal Impact:				
Expenditures:				
Operating Expenses - DOR	$32,000	$0	$0	$0
TOTAL Expenditures	$32,000	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$32,000	$0	$0	$0
TOTAL Funding of Exp.	$32,000	$0	$0	$0
Revenues:				
General Fund (01)	($77,837)	($78,677)	($79,380)	($80,235)
TOTAL Revenues	($77,837)	($78,677)	($79,380)	($80,235)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($109,837)	($78,677)	($79,380)	($80,235)

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*