



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill # SB0399

Title: Provide for 529 account for disability expenses

Primary Sponsor: Thomas, Fred

Status: As Amended in Senate Committee

- 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

	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>	<u>FY 2018</u> <u>Difference</u>	<u>FY 2019</u> <u>Difference</u>
Expenditures:				
General Fund	\$22,200	\$1,400	\$1,421	\$1,442
Revenue:				
General Fund	(\$12,000)	(\$30,000)	(\$53,000)	(\$119,000)
Net Impact-General Fund Balance:	<u>(\$34,200)</u>	<u>(\$31,400)</u>	<u>(\$54,421)</u>	<u>(\$120,442)</u>

Description of fiscal impact: SB 399, as amended, creates a new type of tax deferred savings account, the Montana Achieving a Better Life Experience (ABLE) account, as provided in federal law under section 529 of the I.R.S. code. The bill, as amended, assigns program administrative responsibility to the Department of Public Health and Human Services (DPPHS).

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. This bill would allow an individual taxpayer to deduct up to \$3,000 per year for contributions to an ABLE account.
2. Federal law exempts earnings retained and qualified withdrawals in these accounts from taxation. The Congressional Budget Office has estimated the federal revenue impact of the exemption of account earnings. These are shown in the table below. The impact on state revenue of exempting qualified deposits can be estimated in the following manner. First the federal revenue impact is converted to an estimate of exempted interest earnings by dividing by the average federal marginal tax rate for taxpayers likely to make deposits to ABLE accounts, which is assumed to be 35%. Next, these interest earnings are converted to total account balances by dividing by the rate of return, which is assumed to be 1.5% higher than the rate on 10 year treasury bills. Next, annual deposits required to achieve these balances are calculated as the difference between the balance for one year and the sum of the previous year's balance and interest on that balance. Montana's share of national deposits is assumed to be the same as Montana's share of income reported on federal tax returns, 0.27%. Finally, the impact on revenue is assumed to be the top marginal

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rate of 6.9% times the calculated Montana deposits. The following table shows assumptions, intermediate calculations, and the estimated revenue impact:

Calculation of Tax Impact of SB 399 as Amended	TY 2015	TY 2016	TY 2017	TY 2018
CBO estimate of federal revenue loss from exemption of interest earnings (\$ million)	\$1.0	\$4.0	\$10.0	\$24.0
Implied interest earnings on ABLE accounts assuming 35% average tax rate	\$2.90	\$11.40	\$28.60	\$68.60
CBO forecast of rate on 10 year treasury bills	2.80%	3.40%	3.90%	4.20%
Implied nationwide total of ABLE account balances (\$ million)	\$66.0	\$233.0	\$529.0	\$1,203.0
Implied nationwide deposits to ABLE accounts (\$ million)	\$66.0	\$164.0	\$284.0	\$645.0
Montana's share of deposits (0.27%)	\$178,000	\$439,000	\$761,000	\$1,727,000
Montana Tax Reduction	\$12,000	\$30,000	\$53,000	\$119,000

3. Revenue impacts would occur when tax returns are filed in the spring following each tax year. Thus, the revenue impacts for tax years 2015 through 2018 will occur in FY 2016 through FY 2019.
4. Changes to tax forms and the department’s data processing systems would be made as part of the normal annual update process with no additional costs.

Department of Public Health and Human Services (DPHHS)

5. DPHHS would issue a request for proposals for contracted financial services which would provide over-all trust duties.
6. For the purposes of this fiscal note, DPHHS assumes that financial services fees associated with maintaining the 529A account are not an obligation of the state and that the oversight committee assists the department in choosing financial institutions that maintain reasonable and appropriate fees.
7. DPHHS will enter into a contract with an expert in topics relevant to the program to assist with program set up, rule writing, procedure, and form development. It is estimated that the short-term contract will cost \$20,000 (\$125 per hour X 160 hours).
8. Section 4 of the bill requires DPHHS to establish, by rule, the terms and conditions of the program subject to the requirements contained in the bill and section 529A of the Internal Revenue Code, 26 USC. 529A. It is assumed that the cost of submission and publication of the rules is \$800 (16 pages at \$50 per page) in FY 2016.
9. The bill establishes an oversight committee with meetings required at least annually. It is assumed that the committee meets annually at an estimated cost of \$1,400. The costs are inflated each year by 1.5%.
10. SB 399 authorizes DPHHS to establish and collect a one-time application fee. This fee will be deposited into the state special revenue fund, as defined in 17-2-102 1(b) (i), MCA, to defray costs of administering the program. The application fee levels will be established at a level to allow participation in the program while covering the ongoing oversight cost.
11. DPHHS will provide program oversight for the ongoing operation of the funds utilizing existing resources and the funds generated via application fees.

Department of Commerce

12. Under the amended bill, there is no fiscal impact to the Board of Investments or the department.

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	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Operating Expenses	\$22,200	\$1,400	\$1,421	\$1,442
TOTAL Expenditures	<u><u>\$22,200</u></u>	<u><u>\$1,400</u></u>	<u><u>\$1,421</u></u>	<u><u>\$1,442</u></u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$22,200	\$1,400	\$1,421	\$1,442
TOTAL Funding of Exp.	<u><u>\$22,200</u></u>	<u><u>\$1,400</u></u>	<u><u>\$1,421</u></u>	<u><u>\$1,442</u></u>
<u>Revenues:</u>				
General Fund (01)	(\$12,000)	(\$30,000)	(\$53,000)	(\$119,000)
TOTAL Revenues	<u><u>(\$12,000)</u></u>	<u><u>(\$30,000)</u></u>	<u><u>(\$53,000)</u></u>	<u><u>(\$119,000)</u></u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$34,200)	(\$31,400)	(\$54,421)	(\$120,442)

Long-Term Impacts:

Department of Revenue

1. CBO estimates of the federal revenue impacts of ABLE accounts imply that the state impact could eventually grow to about \$300,000.

Technical Notes:

Department of Public Health and Human Services

1. This fiscal note assumes the creation of a state special revenue fund.

Sponsor's Initials

Date

Budget Director's Initials

Date