



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # HB0129

Title: Revise the Family Education Savings Act

Primary Sponsor: Bedey, David

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

	<u>FY 2022 Difference</u>	<u>FY 2023 Difference</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$150,730	(\$24,694)	(\$231,406)	(\$473,490)
Net Impact-General Fund Balance:	<u>\$150,730</u>	<u>(\$24,694)</u>	<u>(\$231,406)</u>	<u>(\$473,490)</u>

Description of fiscal impact: HB 129 modifies Montana's version of education savings plans making more expenditures allowable under the bill, limiting the Montana income tax exemption to funds deposited into Montana ESP accounts, expanding the types of allowable tax-free expenditures from the accounts, and reducing the qualifying holding period for such withdrawals from three years to one year.

FISCAL ANALYSIS

Assumptions:

Department of Revenue (DOR)

- Under current law, taxpayer deposits into any qualified Education Savings Program Account (ESP) can be exempt from Montana personal income tax.
- The federal Tax Cuts and Jobs Act of 2017 broadened 529 college savings plans to allow expenditures on an array of educational expenses including certain K-12 education and apprenticeship expenses. HB 129 modifies Montana ESPs to make more expenditures allowable under Montana's version of education savings plans.
- The bill limits the Montana income exemption to funds deposited into Montana ESP accounts and expands the types of allowable tax-free expenditures from the accounts. Taxpayers would now be able to spend ESP funds on K-12 tuition, certain expenses for registered apprenticeships and the repayment of student loans. The

bill also reduces the time funds must be held in the account to be eligible for tax free treatment from three years to one year.

Limiting Exemptions to Montana Education Savings Plans

4. In TY 2019, 4,854 resident and non-resident taxpayer households claimed \$15.935 million in Montana personal income tax exemptions through Education Savings Plans. This reduced income tax liabilities by approximately \$1 million.

Tax Year	Households	Exempt Income	Average
2014	3,319	\$10,567,539	\$3,184
2015	3,484	\$11,112,174	\$3,189
2016	3,641	\$11,695,247	\$3,212
2017	4,017	\$13,096,737	\$3,260
2018	4,384	\$14,220,120	\$3,244
2019	4,854	\$15,935,379	\$3,283

5. Under current law, the average amount of income exempted per income tax household was \$3,283 (\$15.935 million / 4,854) in TY 2019. It is assumed that each tax filing covered the cost of two future students.
6. The changes made by HB 129 first apply in TY 2021.
7. Limiting exempt income to only Montana Education Savings Program funds is assumed to reduce the number of claimants and will reduce the total amount of income that is exempt by 25% as deposits in a non-Montanan program fund would no longer be eligible for the income exemption. In TY 2019 this would have been an increase in taxable income of \$3.984 million under the proposed bill.
8. Households receiving exemption are assumed to have paid the top marginal tax rate of 6.9%. Montana’s individual income tax liabilities would have increased by \$274,885 in TY 2019 under the proposed bill.

Exempt Income	Assumed Out-of-State Share	Non-Exempt Income	HB 129 Change in Liability
\$15,935,379	25%	\$3,983,845	\$274,885

Change in Utilization of Montana Family Education Savings Program

9. It is assumed that expanding the types of tax-exempt expenditures that are covered by Montana’s Family Education Savings Program will increase the number of people claiming the exemption and the total amount of income that is exempted.
10. Based on U.S. Census Bureau data there were 19,174 children enrolled in a private school kindergarten through 12th grade program in Montana during 2019.
11. According to the Montana Department of Labor and Industry, there were 2,632 individuals in an apprenticeship program within Montana during 2019.
12. Some of the families with children in private school were already enrolled in a Montana ESP and some will not enroll in an ESP under the proposed law. It is assumed that 25% of the children enrolled in a private school will have parents who will enroll in a Montana ESP under HB 129.
13. It is assumed that 25% of the individuals enrolled in the apprentice program will open a Montana ESP.
14. With 19,174 children and 25% being from families that begin using a Montana ESP, the number of students enrolled in a savings program would have increased by 4,794 in TY 2019.
15. With two students in each taxpayer household, the total number of taxpayer households exempting income would increase by 2,397. These households are assumed to deposit the same amount as the average exempted amount in TY 2019.
16. With an average household exemption of \$3,283 and 2,397 participating households, the income exempted due to the expanded eligibility of K-12 expenses would have increased by \$7,868,530 in TY 2019. A tax rate

of 6.9% applied to \$7.868 million in newly exempt income Montana individual income tax liabilities would have decreased revenue by \$542,929 in TY 2019 under the provisions of HB 129.

Private School Students	Participants	New Students	Students Per Household	New Households	Average Exemption	Exempt Income	Change in Liability
19,174	25%	4,794	2	2,397	\$3,283	\$7,868,530	(\$542,928.59)

Increased Montana ESP Utilization Due to Newly Eligible Apprenticeship Expenses

17. It is assumed that the average cost of supplies for individuals enrolled in eligible apprenticeship programs is \$1,000 and each apprentice will deposit \$1,000 into an ESP fund.
18. At a 25% participation rate, 2,632 participants, \$1,000 in deposits per apprentice the newly allowed apprenticeship costs will reduce taxable income in Montana by \$658,000 (2,632 x .25 x \$1,000). At a 6.9% tax rate, Montana income tax liabilities would be reduced by \$45,402.

Apprenticeships	Participation	Average Supply Cost	Exempt Income	Change in Liability
2,632	25%	\$1,000	\$658,000	(\$45,402)

Deductible Student Loan interest

19. As there is already an income tax deduction for student loan interest, the expansion in eligible education expenses to qualified education loans would not have an impact on Montana income tax liability.

Projecting Tax Revenue Impacts

20. From TY 2014 through TY 2019, the average amount deposited into an ESP account and exempted from Montana income tax increased by 8.6% each year. It is assumed that the revenue changes that would have occurred in TY 2019 under the proposed bill will continue. The estimated impacts of each provision, and a growth rate of 8.6%, results in the revenue impact as presented through TY 2024, below:

Tax Year	Growth Rate	Out-of-State Program Limits	K-12 Deposits	Apprenticeship Expenses
2019		\$274,885	(\$542,929)	(\$45,402)
2020	8.6%	\$298,525	(\$589,620)	(\$49,307)
2021	8.6%	\$324,199	(\$640,328)	(\$53,547)
2022	8.6%	\$352,080	(\$695,396)	(\$58,152)
2023	8.6%	\$382,359	(\$755,200)	(\$63,153)
2024	8.6%	\$415,241	(\$820,147)	(\$68,584)

21. The reduction in tax-exempt income will apply beginning in TY 2021. It is assumed that there will be a phase-in period for the income exempted for K-12 and apprenticeship deposits. It is assumed that 25% of the estimated income will be exempted in TY 2021, 50% in TY 2022, 75% in TY 2023 and 100% in following tax years.
22. When combined and phased-in, the limitation of the income exemption to Montana specific ESP funds and the expansion of qualified education expenses are forecast to increase income tax revenue in TY 2021 by \$150,730, then for TY's 2022, 2023 and 2024, the proposed changes reduce income tax revenue by \$24,694, \$231,406, and \$473,490, respectively.

Tax Year	Fiscal Year	Phase In Rate	Out-of-State Program Limits	Exempting K-12 Deposits	Exempting Apprenticeship Expenses	Total Revenue Impact
2019	2020	0%	\$0	\$0	\$0	\$0
2020	2021	0%	\$0	\$0	\$0	\$0
2021	2022	25%	\$324,199	(\$160,082)	(\$13,387)	\$150,730
2022	2023	50%	\$352,080	(\$347,698)	(\$29,076)	(\$24,694)
2023	2024	75%	\$382,359	(\$566,400)	(\$47,365)	(\$231,406)
2024	2025	100%	\$415,241	(\$820,147)	(\$68,584)	(\$473,490)

23. As the proposed bill does not change the income reported by taxpayers, only the amount of taxable income, it is assumed that taxpayers do not change their withholding or estimated payments due to the proposed bill.
24. With no changes in withholding or estimated payment amounts, the bill would increase income tax revenue by \$150,730 in FY 2022 and reduce revenue by \$24,694 in FY 2023, \$231,406 in FY 2024 and \$473,490 in FY 2025.

Department of Revenue Administrative Costs

25. The changes made by the proposed bill can be made as part of the department’s annual change process. The department does not expect to incur any additional costs because of the proposed bill.

	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
Department of Revenue				
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	\$150,730	(\$24,694)	(\$231,406)	(\$473,490)
TOTAL Revenues	<u>\$150,730</u>	<u>(\$24,694)</u>	<u>(\$231,406)</u>	<u>(\$473,490)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$150,730	(\$24,694)	(\$231,406)	(\$473,490)

AUTHORIZED BY SPONSOR 1/14/21 KA 1/13/21
Sponsor's Initials *Date* *Budget Director's Initials* *Date*