



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 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 2022 Difference</u>	<u>FY 2023 Difference</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$173,469)	(\$376,774)	(\$613,765)	(\$888,731)
<b>Net Impact-General Fund Balance:</b>	<u>(\$173,469)</u>	<u>(\$376,774)</u>	<u>(\$613,765)</u>	<u>(\$888,731)</u>

**Description of fiscal impact:** HB 129 as amended in the Senate Taxation Committee, links Montana education savings (529) plans (and their allowable expenses) to federal law. The bill exempts income deposited into any qualified 529 Education Savings Plan (ESP) from Montana income tax.

### 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.
- 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

4. 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.
5. HB 129 as amended makes several changes to the Montana Education Savings Program. The proposed bill expands the types of expenditures income deposited into an Education Savings Program fund can be spent on without having to pay tax on the income from the fund. Under the proposed bill, taxpayers can spend money from an Education Saving Program fund on any costs covered in 26 U.S. Code 529. New expenses allowed under the proposed changes include K-12 tuition, certain expenses for registered apprenticeships and the repayment of student loans. The proposed bill also reduces the time that money deposited into the fund must be kept in the fund before being subject to taxation from three years to one year.
6. The changes made by HB 129 first apply in TY 2021.
7. 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.
8. Based on U.S. Census Bureau data there were 19,174 children enrolled in a private school kindergarten through 12<sup>th</sup> grade program in Montana during 2019.
9. According to the Montana Department of Labor and Industry, there were 2,632 individuals in an apprenticeship program within Montana during 2019.
10. 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 qualified ESP under HB 129.
11. It is assumed that 25% of the individuals enrolled in the apprentice program will open an ESP.
12. 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.
13. 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.
14. 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	New Participants	New 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*

15. 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.

16. At a 25% participation rate, 2,632 participants, and \$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.

Table 3 - HB 129 as Amended- Exempting Apprenticeship Expenses				
Apprenticeships	Participation	Average Supply Cost	Exempt Income	Change in Liability
2,632	25%	\$1,000	\$658,000	(\$45,402)

*Deductible Student Loan Interest*

17. 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*

18. 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:

Table 4 - HB 129 as Amended - Forecast Change in Revenue			
Tax Year	Growth Rate	K-12 Deposits	Apprenticeship Expenses
2019		(\$542,929)	(\$45,402)
2020	8.6%	(\$589,620)	(\$49,307)
2021	8.6%	(\$640,328)	(\$53,547)
2022	8.6%	(\$695,396)	(\$58,152)
2023	8.6%	(\$755,200)	(\$63,153)
2024	8.6%	(\$820,147)	(\$68,584)

19. 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.

20. 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 reduce income tax revenue by as follows:

Table 5 - HB 129 as Amended - Combined Revenue Impacts					
Tax Year	Fiscal Year	Phase In Rate	Exempting K-12 Deposits	Exempting Apprenticeship Expenses	Total Revenue Impact
2019	2020	0%	\$0	\$0	\$0
2020	2021	0%	\$0	\$0	\$0
2021	2022	25%	(\$160,082)	(\$13,387)	(\$173,469)
2022	2023	50%	(\$347,698)	(\$29,076)	(\$376,774)
2023	2024	75%	(\$566,400)	(\$47,365)	(\$613,765)
2024	2025	100%	(\$820,147)	(\$68,584)	(\$888,731)

21. 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.

22. With no changes in withholding or estimated payment amounts, the proposed bill will decrease income tax revenue by \$173,469 in FY 2022, by \$376,774 in FY 2023, \$613,765 in FY 2024, and \$888,731 in FY 2025.

Department of Revenue Administrative Costs

23. 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.

<b><u>Fiscal Impact:</u></b>	<b><u>FY 2022</u></b>	<b><u>FY 2023</u></b>	<b><u>FY 2024</u></b>	<b><u>FY 2025</u></b>
<b>Department of Revenue</b>	<b>Difference</b>	<b>Difference</b>	<b>Difference</b>	<b>Difference</b>
<b>FTE</b>	0.00	0.00	0.00	0.00
<b><u>Expenditures:</u></b>				
Personal Services	\$0	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$173,469)	(\$376,774)	(\$613,765)	(\$888,731)
<b>TOTAL Revenues</b>	<u>(\$173,469)</u>	<u>(\$376,774)</u>	<u>(\$613,765)</u>	<u>(\$888,731)</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$173,469)	(\$376,774)	(\$613,765)	(\$888,731)



Sponsor's Initials

2/22/2021

Date



Budget Director's Initials

2/19/21

Date