DEPARTMENT OF AUDITS AND ACCOUNTS
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January 9, 2018

Honorable Jay Powell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 28 8569)

Dear Chairman Powell:

The bill would increase the limit on the contributions to Georgia Higher Education Savings Plan (529 plan) accounts that may be deducted from income on state personal income tax returns. The bill would increase the maximum deduction per beneficiary from $2,000 to $4,000. Taxpayers filing a single or separate return could claim a maximum deduction of $4,000, while married taxpayers filing a joint return could claim a maximum deduction of $8,000. The bill is effective for contributions made in taxable years beginning on or after January 1, 2019.

Impact on State Revenue
Georgia State University's Fiscal Research Center estimated that the bill would reduce state revenue by $1.9 million to $3.0 million beginning in fiscal year 2020 (see Table 1). No effect would occur in fiscal year 2019 because affected tax returns would not be filed until the following fiscal year. The low estimate assumes no change in contributions made to 529 plan accounts, while the high estimate assumes an increase in contributions and additional accounts being opened. Details of the analysis are in the attached appendix.

Table 1. Revenue loss from LC 28 8569

($ millions)	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
Revenue Loss (Low)	$1.9	$1.9	$1.9	$1.9
Revenue Loss (High)	$3.0	$3.0	$3.0	$3.0

The analysis does not include changes to 529 plan utilization that could occur as a result of recently passed federal tax legislation. While federal legislation expands the definition of qualified distributions to include expenses for K-12, it is unclear whether this will increase the number of 529 plan accounts. Individuals who begin using 529 plan account distributions for K-12 education expenses may already have an account for higher education expenses; therefore, no new account would be created.

Impact on Expenditures
The bill would result in one-time costs of approximately $30,000 for the Department of Revenue. The costs include $22,000 for IT changes such as design/development, system testing, and quality assurance, as well as $8,000 for form updates and employee training.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

The revenue effect of this proposal is estimated using data provided by the Georgia Student Finance Commission. These data provided information on the size of account deposits for Georgia 529 plan accounts in tax year 2016. Based on this information, approximately 25,000 accounts had annual deposits between $2,000 and $8,000 in 2016, with an average contribution for 2016 of $3,702. This group comprised 28 percent of all Georgia 529 plan accounts in 2016. In addition, 5.7 percent of all 529 plan accounts—or about 5,000—had annual deposits for 2016 in excess of $8,000. Approximately 84 percent of all 2015 tax returns with a deduction for 529 plan contributions have married filing joint returns.

Each plan receiving the full $2,000 increase in the proposed limit generates a revenue loss to the state of $117, assuming an average effective tax rate of 5.84 percent, based on Georgia income tax data for tax year 2015. The estimated revenue effect assumes no increase in the amount of contributions to account plans with contributions above $4,000 for single filers and no increase to accounts contributing above $8,000 for MFJ, as they currently contribute in excess of the proposed deduction limit.

The estimated combined effect of this provision is between $1.9 and $3.0 million annually from FY 2019 through FY 2023. Assuming no change in the amount of annual contributions or number of accounts, the provision decreases state revenues by $1.9 million annually, on average. Assuming an increase in plan contributions to accounts at the current maximum deduction of $2,000 to the new maximum deduction of $4,000 for single filers—and $4,000 to $8,000 for married filing jointly—and a marginal increase in the number of new plan accounts, the cost of this provision is $3.0 million annually, on average.