HB 3104 -1 Reducing the 529 Plan subsidies for high income taxpayers

Testimony for House Revenue – Anne Nesse – 3.22.2017

The 529 College Savings Plan is a big subsidy for higher education, used primarily by those whose children and grandchildren would have family help with college, with or without the tax benefits of the 529 College Savings Plan.

According to the Tax Expenditure Report, the present 529 Plan subsidies this coming biennium will cost the General Fund $40 million, $28.5 million as the funds flow in, with most contributions subtracted from Oregon's taxable income, and another $12.2 million as the money is withdrawn for use without taxes on the capital gains.

This anticipated $40 million is equal to the anticipated $40 million cost of Oregon Promise, and 28% of what we spent last biennium on Oregon Opportunity Grants for needy students[1]. Given that 87% of the taxpayers benefiting from the 529 Plan subtraction from income are in the upper 20% of taxpayers, this subsidy is misdirecting our state's resources. The tax benefit needs to be capped.

Rep. Hernandez has recommended capping the tax benefits as funds flow in at 500% of the Federal Poverty Guidelines, which change each year. For 2017 they are:

Household size	Poverty	200%	300%	400%	500%	600%
1	$12,060	$24,120	$36,180	$48,240	**$60,300**	$72,360
2	$16,240	$32,480	$48,720	$64,960	**$81,200**	$97,440
3	$20,420	$40,840	$61,260	$81,680	**$102,100**	$122,520
4	$24,600	$49,200	$73,800	$98,400	**$123,000**	$147,600
5	$28,780	$57,560	$86,340	$115,120	**$143,900**	$172,680

We agree that our precious resources should be directed to those most in need of assistance and note that the proposed change still allows anyone to contribute to a 529 Plan, and the capital gains on the funds are tax free when withdrawn, aligning with Federal tax law. Currently, any individual can make a $2310 plan contribution tax free,[2] a subtraction from income that costs the General Fund $208.

States make the choice about whether to provide a subtraction from income as contributions are made. The -1 amendment which is being drafted is a change we recommend. A household whose income is five times the federal poverty guidelines should be asked to be a little more self-sufficient when lower-income families are getting little help with affording higher education. In addition to the tax-free gains at the time of withdrawal, they can still use the benefits of Oregon Promise and in-state tuition by choosing an Oregon school.

We read the bills and follow the money

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[1] Oregon Opportunity Grants go to needy college students. The budget allocation last biennium was $141 million. Fewer than half the eligible students received grants because $141 million isn't enough. Grants are limited to $2100 per student.

[2] Oregon's tax-free contribution amount is indexed for inflation.