TAX FAIRNESS OREGON

## SB 161: College Savings 529 Plan Tax Credit – can improvements be made?

Senate Finance and Revenue – 2.5.2019

Under current law, the most that filers can deduct from their adjusted gross income (AGI) for contributing to a college savings plan is $2435 for single filers and $4870 for joint filers. These are the 2018 limits (the number is indexed). The current maximum benefit for taxpayers is $219 single filers/$438 joint filers, assuming taxpayers are in the 9% tax bracket. So essentially the General Fund is contributing up to these amounts to any families, friends or grandparents who are able and interested in contributing to a 529 college savings plan. The cost to the General Fund for 529 ABLE and College savings plans, when including both the front and back end, is projected to be $45 million this coming biennium in the Tax Expenditure Report (TER).

Under current law, nearly 87% of the $45 million in tax benefits accrues to taxpayers who are not benefitted by SB 161's increased benefits as their incomes are above the $100,000 limit in SB 161. According to the TER, only 13% of the $45 million in tax benefits goes to those with under $97,000 of income.

This bill intends to increase that 9% contribution from the General Fund to 25%, 50% or more of money placed in a 529 plan, depending upon the income level of the taxpayer. The current 9% would remain for taxpayers with income of over $100,000, but for fewer dollars contributed.

Clearly, SB 161 is an attempt to nudge more lower-income taxpayers into saving for college through a 529 plan. It's a good idea**;** and one we can afford if the bill reduces the current subsidies for higher income contributors.

In order to afford SB 161 as a revenue neutral bill, today's limits of $2435 single/$4870 joint need to be lowered for all filers. Reducing the benefit for the current dominant users to pay for nudging lower-income taxpayers to contribute to a 529 college savings plan would be a notable shift in who the program benefits.

Finding the "right" numbers for tax free contributions to 529 plans might be tricky. But we would certainly support a revenue neutral expansion of Oregon's college savings plan that encourages more low- and middle-income taxpayers to contribute while the benefit for more affluent taxpayers is decreased, while retaining a total cost to the General Fund that does not increase.

A number of states, including California and Washington, have no state-specific subsidy for 529s, so we will still be generous to our more financially secure taxpayers. We would suggest being less generous at the bottom end. Oregon's primary efforts in supporting higher education should remain in funds for colleges themselves to keep tuition costs from growing, and Oregon Opportunity Grants that are needs based, and directed to students studying in Oregon.

**We propose:**

Limit the expanded tax savings to taxpayers with income below <$75,000 single/$150,000 joint
Allow tax credits as suggested in this bill of 25% for income <$40,000/$50,000
15% for income <75,000/$150,000

Rather than having a inflation adjusted number, have an adjustable limit fort all tax advantaged contributions so that the cost to the General Fund doesn't increase beyond the current $45 million.

It appears to us that the bill gives single filers who are not married filing separately – say single grandparents or divorced parents – the same tax credit as a couple.  That is probably an error that needs correcting with an amendment.