

HB 2387 A STAFF MEASURE SUMMARY

House Committee On Revenue

Action Date: 05/21/19

Action: Do pass with amendments and be referred to Tax Expenditures. (Printed A-Eng.)

Vote: 7-0-0-0

Yeas: 7 - Findley, Hernandez, Marsh, Nathanson, Reschke, Smith G, Smith Warner

Fiscal: Has minimal fiscal impact

Revenue: Revenue impact issued

Prepared By: Kyle Easton, Economist

Meeting Dates: 2/18, 5/21

WHAT THE MEASURE DOES:

Creates refundable personal income tax credit for contributions to a 529 higher education savings network account or an Achieving a Better Life Experience (ABLE) account. Limits credit to \$300 if reported by taxpayer on a joint return or \$150 if reported on any other type of return. Specifies framework for credit amount as a function of taxpayer's adjusted gross income and amount contributed. Specifies credit is available in tax years 2020 through 2025. Indexes maximum amount of credit to inflation and adjusts credit maximum in \$20 or \$10 increments. Limits existing law 529 subtraction to contributions made in tax years beginning before January 1, 2020 and allows unused subtracted amounts to be carried forward only to tax years beginning before January 1, 2025. Requires taxpayer to report forfeited credit amount. Requires Department of Revenue to collect, including penalties and interest, unreported taxes not paid by taxpayer as a result of forfeited credit. Takes effect on 91st day following adjournment sine die.

ISSUES DISCUSSED:

- Proposed tax credit threshold, credit percentage decreases as income increases
- Effect of compound interest on ability to save for future higher education expenses
- Higher education being a human capital investment
- Academic literature providing supportive evidence that children with college savings are more likely to attend higher education
- Higher education providing a path to prosperity
- Potential cost of policy change from existing law income tax subtraction to refundable income tax credit
- Measure designed to be revenue neutral.

EFFECT OF AMENDMENT:

Limits credit maximum amounts. Indexes maximum amount of credit to inflation. Modifies requirements of taxpayer to report forfeited credit amount. Requires Department of Revenue to collect, including penalties and interest, unreported taxes not paid by taxpayer as a result of forfeited credit.

BACKGROUND:

ORS 316.699 allows a subtraction from taxable income for contributions made to an Oregon 529 College Savings Network account for higher education or an Achieving a Better Life Experience (ABLE) account. An inflation adjusted limit exists on the amount of contributions that may be annually subtracted. The 2018 subtraction limits were \$4,750 for a joint return and \$2,375 on all other returns. Contributions above the subtraction limit can be carried forward and subtracted in up to four succeeding tax years. In tax year 2016, about 44,000 returns claimed the Oregon 529 subtraction with the average subtraction amount being about \$2,900.

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Measure replaces existing law income tax subtraction for contributions to 529 accounts with a refundable income tax credit available to taxpayers making contributions to a 529 higher education and/or ABLE account.