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Fiscal Note

Drafting Number: LLS 22-0511
Prime Sponsors: Sen. Gardner
Rep. Bradfield

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Bill Status: Senate SVMA
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Bill Topic: **529 PLAN EDUCATION LOAN PAYMENT ELIGIBLE DISTRIBUTION**

Summary of Fiscal Impact:

- State Revenue
- State Expenditure
- State Transfer
- TABOR Refund
- Local Government
- Statutory Public Entity

The bill defines expenditures from a 529 account for the payment of qualifying student loans as an eligible distribution, and therefore not subject to tax recapture under state law. The bill will decrease state revenue beginning in FY 2022-23, and increase state expenditures in FY 2022-23 only.

Appropriation Summary: For FY 2022-23, the bill requires an appropriation of \$804 to the Department of Revenue.

Fiscal Note Status: The fiscal note reflects the introduced bill.

**Table 1
State Fiscal Impacts Under SB 22-084**

		Budget Year FY 2022-23	Out Year FY 2023-24
Revenue	General Fund	(\$124,320)	(\$222,099)
	Total Revenue	(\$124,320)	(\$222,099)
Expenditures	CollegelInvest Administration	\$850,000	-
	General Fund	\$804	-
	Total Expenditures	\$850,804	-
Transfers		-	-
Other Budget Impacts	TABOR Refund	(\$124,320)	(\$222,099)
	General Fund Reserve	\$121	-

Summary of Legislation

This bill defines expenditures from a 529 account for the payment of student loans, up to \$10,000 per beneficiary, as a qualified distribution, and therefore not subject to tax recapture. Under current law, taxpayers may deduct contributions to a 529 account from their Colorado taxable income. Funds from a 529 account must be spent on certain qualified education expenses to be considered a qualified distribution. Non-qualified distributions from a 529 account are subject to recapture of the tax deduction.

Background

Under federal law, a 529 account operates similar to a Roth retirement account. Contributions to a 529 account are not tax deductible, but are allowed to grow tax free in the account, as long as the funds are spent on qualified education expenses. In 2019, the federal SECURE Act included student loan payments, up to \$10,000 per beneficiary, as a qualified education expense.

State Revenue

The bill will reduce income tax revenue by \$124,320 in FY 2022-23, by \$222,099 in FY 2023-24, and by similar amounts in subsequent years. The bill decreases revenue from income taxes, which are subject to TABOR.

The fiscal notes assumes that approximately 1,000 taxpayers will utilize the new deduction using a 529 account to pay off student loans in tax year 2022, with modest growth in the following tax years as individuals become aware of this new eligible distribution form 529 accounts. Due to the relatively small tax benefit, a maximum of \$455 per beneficiary across all years, and minimal advertising anticipated from CollegeInvest regarding this new qualified distribution, the fiscal note assumes utilization of 529 plans to pay for student loans will be limited.

State Expenditures

The bill is expected to increase state expenditures by \$850,804 in FY 2022-23 only, and increase workload beginning in FY 2022-23.

CollegeInvest. In FY 2022-23, the bill increases expenditures for CollegeInvest by \$850,000 to implement the new FLEX savings accounts. No appropriation is necessary as CollegeInvest will use their own administrative funds for any costs associated with the bill. CollegeInvest operates as an enterprise within the Department of Higher Education and receives revenue from fees earned from managing educational savings accounts.

Department of Revenue. Beginning in FY 2022-23, the bill increases workload in the Department of Revenue (DOR) to process and review additional tax returns claiming the 529 contribution deduction. This increase in workload can be accomplished within existing appropriations. The bill also requires \$804 in expenditures in FY 2022-23 only to accommodate additional document management. These expenditures will take place in the Department of Personnel and Administration using reappropriated funds from the DOR.

Other Budget Impacts

TABOR refunds. The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save.

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations beginning in FY 2022-23. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by \$121 in FY 2022-23.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2022-23, the bill requires a General Fund appropriation of \$804 to the Department of Revenue. This amount should be reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Higher Education
Personnel

Information Technology
Revenue

Law