



HB 2387 Creates a Refundable Tax Credit for 529 and ABLÉ Account Contributors

Testimony for House Revenue – 2.18.2019

In its evaluation of the 529 College Savings Plan for the 2018 Tax Expenditure Report, the Higher Education Coordinating Commission wrote: **"the preponderance of the benefits of the expenditure are captured by Oregonians who traditionally have the least difficulty in planning and paying for higher education expenses. Thus, this expenditure may not significantly contribute to increases in higher education access and affordability."**

2016 Personal Income Tax Filers

Income Group of Full-Year Filers*	Number of Filers Taking Subtraction	Average Subtraction	Percent of Revenue Impact by Income Group
Below \$14,400	520	\$1,840	<1%
\$14,400 - \$29,800	700	\$1,670	<1%
\$29,800 - \$52,400	1,810	\$1,710	2%
\$52,400 - \$92,700	6,700	\$1,970	10%
Above \$92,700	33,000	\$3,210	87%
All Full-Year Filers	42,740	\$2,910	100%
Part-Year and Nonresident Filers	1,290	\$2,960	

*Each income group contains 20 percent of the full-year filers (approximately 350,000)

provided by the Higher Education Coordinating Commission

Given this evaluation, each year the Treasury Department comes to you with ideas to expand these savings programs, and given our current budget realities, this one is a doozy.

HB 2387 eliminates the current limited subtractions of \$2375/\$4750 and replaces it with a refundable credit of up to \$500 for families, grandparents and friends who save for children's higher education or special needs expenses with an Oregon 529 plan or contribute to an ABLÉ account. While offering up to 100% refundable tax credits to lower income participants, a powerful inducement, it also would increase moderately the tax break for high-income joint filers and more than double the potential tax break for single high-income taxpayers like myself.

Last year the General Fund contributed \$235 towards my California granddaughter's education in Baltimore, she has never lived in Oregon. Under this proposal, next year that figure would rise to \$500. Really? We can only provide need-based Opportunity Grants to about half of the eligible low-income Oregon students, students who live here in Oregon and are in school here. Yet we're spending time discussing this proposal? If every Oregon tax filer availed themselves of the benefits it would cost the General Fund over \$1 billion a year¹. Of course,

¹ We had to check this number several times. 2,041,000 tax filers x \$500 = \$1,020,500,000.

everyone won't participate, many families don't have \$500 or more available to fully use the refundable tax credit, but many of us who are currently the main beneficiaries will. The bill expands our benefits² rather than reducing them to pay for the extravagant inducements in this bill for lower income tax filers.

HB 2387 529 and ABLE Accounts Refundable Tax Credit \$500 per filer

Adjusted Gross Income	Credit Subsidy	Contribution amount needed to receive the full credit of \$500 per filer	Potential Number of Returns that could file for the new refundable tax credit on their PIT based on 2016 figures
0-\$30,000	100%	\$500	903,000
\$30,000-\$70,000	50%	\$1000	583,000
\$70,000-\$100,000	25%	\$2000	229,000
\$100,000-or more	10%	\$5000	326,000
			2,041,000 Possible Returns x \$500 maximum benefit = \$1,020,500,000

Current Law:

The maximum subtraction from income is: \$2375 single/\$4750 joint, indexed.

Maximum Benefit: \$470 for joint filers and \$235 for individual filers (paying a rate of 9.9%).

43,000 filers took the 529 subtraction and 120 took the ABLE subtraction in 2016

If the proposed tax credit were fully utilized by all tax filers the total cost would be \$1 billion

It's clear that the benefits under current law are flowing to the most advantaged Oregonians and we support the idea of spreading the benefits more broadly, but not with this plan.

Any changes to encourage participation by lower income taxpayers should be paid for by reducing the subsidies we're offering high income taxpayers, not by gobbling up the General Fund.

² Single filers get the same benefit as joint filers under this bill a maximum increase from \$235 to \$500. It also increases the maximum benefit for joint filers from \$470 to \$500 per year, and a taxpayer can contribute to both a 529 and a ABLE account, a factor none of our numbers takes into account.

These saving plans for children are expected to cost \$45.6 million in the coming biennium³ with most of the benefit accruing to families most able to manage the rising costs of education and most likely to afford their children being amongst the 30% of college students who leave college without debt, whether they attend college in Oregon or elsewhere.

If you want to support education for those who most need it, reduce the benefits for high-income taxpayers under these programs and use the savings to support the needs-based Oregon Opportunity Grant program, Oregon Promise, or reduce tuition costs for all Oregon students.

Any changes to encourage participation by lower income taxpayers should be paid for by reducing the subsidies we're offering high income taxpayers, not by gobbling up the General Fund.

The refundable tax credit is for the stated percentage of contribution *up to* \$500

100% for the ~903,000 filers with AGI below \$30,000

50% for the ~583,000 filers with incomes between \$30-\$70k

25% for the ~229,000 filers with incomes between \$70-\$100k

10% for the ~326,000 filers with incomes above \$100,000. We would still offer \$500 on the first \$5000.

We read the bills and follow the money

³ Between the 529 and ABLÉ accounts, the GF cost is \$45.6 m this coming biennium. Deposits are expected to cost \$33.5 m (\$33.2 + \$0.3) and tax free withdrawal \$12.1 m (\$12.0 + \$0.1).

