

HOUSE RESEARCH

Bill Summary

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Overview

This bill allows taxpayers to subtract up to \$1,500 (\$3,000 for married joint filers) of their contributions to a section 529 college savings plan in computing their taxable incomes under the Minnesota individual income tax. For a married taxpayer in the top bracket, this would result in a maximum state tax savings of \$295 (for a \$3,000 contribution).

Also allows a refundable income tax credit of up to \$500 equal to a percentage of contributions to a section 529 plan. The credit rate varies with income.

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1 Subtraction; section 529 plans. Allows a taxpayer to deduct up to \$1,500 (\$3,000 for married joint filers) of contributions to any state's section 529 college savings plan for purposes of computing the Minnesota individual income tax. The subtraction excludes amounts that are rolled-over from other college savings plans.

Effective date: Tax year 2015

Background information. The potential tax savings from this deduction will vary based on the marginal tax rate of the taxpayer and whether or not the taxpayer itemizes deductions for federal income tax purposes. The state tax savings range from 5.35% of the contribution for a taxpayer in the bottom bracket to 9.85% of the contribution for a taxpayer in the top bracket. If the taxpayer itemizes deductions under the federal income tax, the reduced state

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tax from the deduction will result in higher federal income tax. For someone in the top federal and state brackets (and itemizing deductions), the net savings are 5.9% (rather than 9.85%), while for a taxpayer in the bottom federal and state brackets (and itemizing deductions), the net savings are 4.82%. (These computations ignore the limitation of itemized deductions, which affects high-income taxpayers.)

Under the federal and Minnesota income taxes, the investment earnings of 529 Plans are not subject to tax if distributions from the account are used to pay for qualified higher education expenses. Contributions are not deductible under either tax.

Many other states offer state income tax deductions for contributions to 529 Plans. Most of these states limit the deduction/subtraction to their in-state plans, although six states (Arizona, Kansas, Maine, Missouri, Montana, and Pennsylvania) allow contributions to any state plan to be deducted. Three states (Indiana, Utah, and Vermont) allow credits for contributions to 529 plans. The table shows the dollar amounts of the deductions and credits.

State	Deduction
Alabama	\$5,000 single/\$10,000 joint
Arizona	\$2,000 single/\$4,000 joint (any state plan)
Arkansas	\$5,000 single/\$10,000 joint
Colorado	Full amount of contribution
Connecticut	\$5,000 single/\$10,000 joint
District of Columbia	\$4,000 single/\$8,000 married joint
Georgia	\$2,000 per beneficiary
Idaho	\$4,000 single/\$8,000 joint
Illinois	\$10,000 single/\$20,000 joint per beneficiary
Indiana	20% tax credit on up to \$5,000 of contributions
Iowa	\$3,098 single/\$6,196 joint per account (tax year 2014 amounts)
Kansas	\$3,000 single/\$6,000 joint per beneficiary (any state plan)
Louisiana	\$2,400/\$4,800 joint per beneficiary
Maine	\$250 per beneficiary phased out for incomes over \$100,000/\$200,000 joint (any state plan)
Maryland	\$2,500 per account /\$5,000 joint, 10-year carryforward
Michigan	\$5,000 single/\$10,000 joint
Mississippi	\$10,000 single/\$20,000 joint
Missouri	\$8,000 single/\$16,000 joint (any state plan)
Montana	\$3,000 single/\$6,000 joint (any state plan)
Nebraska	\$10,000 (\$5,000 married separate) per tax return
New Mexico	Full amount of contribution

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New York	\$5,000 single/\$10,000 joint
North Dakota	\$5,000 single/\$10,000 joint
Ohio	\$2,000 per beneficiary per contributor with unlimited carryforward
Oklahoma	\$10,000/\$20,000 joint per beneficiary per contributor, five-year carryforward
Oregon	\$2,225 single/\$4,455 joint, four-year carryforward (tax year 2013 amounts)
Pennsylvania	\$14,000 per contributor per child (any state plan) (amount set to federal gift exclusion amount)
Rhode Island	\$500 single/\$1,000 joint, with carryforward
South Carolina	Full amount of contribution
Utah	5% credit on contributions of up to \$1,860 single/\$3,720 joint (tax year 2014 amounts)
Vermont	10% credit on contributions of up to \$2,500 single/\$5,000 joint
Virginia	\$4,000 per account per year (no limit age 70 and older), with carryforward
West Virginia	Full amount of contribution, five year carryforward
Wisconsin	\$3,050 per dependent beneficiary, self, or grandchild, indexed for inflation
Source: http://www.savingforcollege.com	

Section

2 **Credit; section 529 plans.** Allows an income tax credit for contributions to any state's section 529 college savings plan. The maximum credit is \$500; the credit rate varies by federal adjusted gross income (AGI). The bill would adjust the income ranges annually for inflation. The table shows the credit rate and minimum contribution necessary to result in the maximum \$500 credit for married couples filing jointly. Single and head of household filers with adjusted gross income over \$80,000 would not be eligible for the credit.

Income range (AGI)	Credit rate	Contribution necessary to claim maximum \$500 credit
Up to \$80,000	50%	\$1,000
\$80,001 to \$100,000	25%	\$2,000
\$100,001 to \$120,000	10%	\$5,000
\$120,001 to \$160,000	5%	\$10,000

The credit is refundable; credit amounts in excess of income tax liability would be paid to the claimant as a refund.

Imposes a penalty on individuals who claimed credits under this section if the beneficiary of an account uses a distribution for other than higher education expenses (e.g., tuition, fees, books, or the student's living expenses). The penalty equals the lesser of

- ▶ 10% of the nonqualified distribution, or
- ▶ The total amount of credits the individual claimed under this section.

Effective date: Tax year 2015