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Overview

H.F. 521 provides taxpayers with an individual income tax credit and a tax deduction for certain contributions to a section 529 college savings plan. Contributions to any state's section 529 college savings plan are eligible for the credit and deduction. A taxpayer may claim both the credit and deduction, but may not count the same contributions towards both the credit and deduction.

Section

- 1 Contributions to 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 or prepaid tuition plan for purposes of computing the Minnesota individual income tax. The subtraction excludes amounts that are rolled-over from other college savings plans, and is not allowed for amounts used to claim the credit in section 2.
- 2 Section 529 college savings plan credit.** Allows a refundable income tax credit for contributions to any state's section 529 college savings plan, including prepaid tuition plans. The maximum credit is \$500; the credit rate varies by federal adjusted gross income (AGI), with the income ranges adjusted annually for inflation.

The table on page 2 shows the credit rate and minimum contribution necessary to result in the maximum \$500 credit for married couples filing jointly at different income levels. The credit rate for single and head of household filers with adjusted gross income up to \$80,000 is 50 percent; those with higher incomes are not eligible for the credit.

Section

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

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:

- ten percent of the nonqualified distribution; or
- the total amount of credits the individual claimed under this section.