



## **HB 2299: Connecting with new parents on 529s**

Testimony for House Higher Ed Committee 2.8.2013, Jody Wisner

This is a very carefully crafted bill for an interesting idea, which might increase participation by a wider demographic of parents and grandparents in providing savings for their children's education. If and when we're flush again, and we've seen evidence of success in another state, Tax Fairness Oregon might endorse it.

However, at present, every time I hear or see an ad for the 529 plan, I think, "Why in the world are we pushing folks to reduce the state's General Fund right now?" or "Couldn't we use the tax dollars that are advertising the 529 plan and Michael Parker's expertise in a more productive way?"

Essentially, the 529 program is both kinds of IRAs wrapped into one concept: no tax going in or coming out. There is therefore, General Fund revenue loss at each end. But this full cost of the 529 plan isn't reported in the Tax Expenditure Report's \$16.3 million. The report anticipates new tax-advantaged investment contributions entering the fund. But it includes no estimate of the lost capital gains revenue for earnings on investments.

According to this year's Tax Expenditure Report, 78% of the use and 87% of the tax benefit flow to families who could save for college without the stimulus of this awesome tax break. They have Adjusted Gross Incomes that can afford savings.

I don't have a recent chart, but in 2005, typical 529 participation was:

- Single individuals with \$77,500 of AGI,
- Couples with \$154,100 of AGI and
- Qualifying widows with \$94,500 of AGI.

Only 1 ½% of Oregonians feel wealthy enough to use this plan.<sup>i</sup> Oregon is better served by a broad base of educational assistance for all students in the earlier years and financial support for needy students in Oregon in the college years.

The 529 is, essentially a State Grant program for advantaged kids' college educations, studying at any accredited institution anywhere in the country or world, and meeting no requirements for hours completed, grades earned, or years to completion.

The revenue loss begins immediately, long before there is any benefit to any students. If parents contribute \$4345 per year for 21 years for a child, qualifying for the full annual \$391 in tax savings per year. This part of the state's contribution to the student's education will total \$8211 (actually more since the annual contribution is indexed to inflation, and we didn't include that in this calculation).

If those tax advantaged investments grow at 6% a year, the capital gains tax savings will be another \$7075. Essentially, this scenario suggests that the other taxpayers of Oregon will give the 529 recipient \$15,286 for their college education, while we're giving only \$8000 in needs-based Opportunity grants to the kids at the other end of the economic spectrum, and that's if they are supper winners in the Opportunity Grant lottery and actually get grants for all four years.

Let's not now advertise the 529 program for the top 1 ½%. Rather, let's suspend it, and transfer the extra \$8 million a year to the Oregon Opportunity Grant program.

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<sup>i</sup> In 2005 Oregon had 1,600,000 tax filers. Oregon 529 tax credits were claimed by 18,605 taxpayers. Email from Mary Fitzpatrick of Oregon Department of Revenue to David Booth, August 3, 2007.

In 2010, with approximately 1,800,000 tax files, Oregon 529 tax credits were claimed by 26,390 Oregon full-year filers, so now 1.4% use this tax break.