



HB 2299A: Can we afford further decreasing to General Fund?

Testimony for Senate Education and Workforce Development - 4.23.2013 – Jody Wiser

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 children’s college education. If and when we’re flush again, and if we’ve seen evidence of success in another state, Tax Fairness Oregon might endorse it. But as it stands, the 529 program is used predominately by those families who can afford it.

Giving notice to all parents won’t give them the assets to use the 529 program, but to the extent that it is successful, it will reduce funds that might otherwise help students who are eligible for needs-based Oregon Opportunity Grants.

529 participation, according to the Department of Revenue,¹ is by the following types of taxpayers:

<u>Filing Status</u>	<u>Number of Filers</u>	<u>Average AGI</u>
Single individuals	2480	\$89,800
Married filing singly	190	\$83,700
Head of Household	1570	\$96,900
Widows	25	\$93,200
Couples	25080	\$175,500

Just under 1 ½% of Oregonians feel wealthy enough to use this plan.

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 dollars that are advertising the 529 plan and Michael Parker’s expertise to increase the funds in the Oregon Opportunity Grant program instead?”

¹ Email received 4.23.2013 from Mary Fitzpatrick, Research Section, Oregon Department of Revenue, data is for 2011 filers, who noted in addition that 11,290 taxpayers claimed the full subtraction amount (\$4240 MFJ, \$2120 all others).

Essentially, the 529 program is both kinds of IRAs wrapped into one concept: no tax going in and no tax on the gains when coming out. There is therefore, General Fund revenue loss at each end.

This full cost of the 529 plan isn't reported in the Tax Expenditure Report's \$16.3 million. The report gives only the cost of new tax-advantaged investment contributions entering the fund. 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. As you can see from the chart, they have Adjusted Gross Incomes that can afford savings.

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, they qualify for \$391 in tax savings per year. This part of the state's contribution to the student's education will total \$8211².

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 taxpayers of Oregon will give the 529 recipient a subsidy of as much as \$15,286 for their college education, while the taxpayers provide the typical needs-based student with only one Oregon Opportunity Grant of \$2000.³

Let's not now advertise the 529 program for the top 1 ½%.

² Actually more since the annual contribution is indexed to inflation, and we didn't include that in this calculation.

³ The Oregon Opportunity Grant program provides grants to only 20% of the eligible applicants, with no promises that they will get a grant for any additional years. Grants in 2013-14 will be \$2000.