



HB 2747A The 529 College Savings Plan Expansion

Testimony for House Revenue 5.7.2015

We all know that the funding for Oregon’s public colleges has fallen dramatically. Similarly, our funding for Oregon Opportunity Grants has not kept up with tuition increases. The Co-Chairs’ proposed budget provides only \$137 million for the Oregon Opportunity Grant program,¹ enough for only about 20% of eligible applicants.

Yet here again we have an effort to expand the 529 College Savings Program, one of several ways we support higher education through the tax code.² According to the Tax Expenditure Report, the 529 program’s cost for the coming biennium is estimated at \$33 million, with 87% of the benefit going to the top quintile of taxpayers, i.e. those with an AGI of more than \$81,800.³ Remember, 529 plans work as though they are both a traditional IRA and a Roth IRA—no taxes going in and no taxes coming out.

As recently as 2008 the legislature expanded the 529 program, increasing the amount that could be sheltered from taxes by more than 100%, from \$1000 to \$2000 per taxpayer, and indexing it for inflation. Certainly, no other higher education expenditure has seen a 100% increase. The indexed subtraction is now \$4600 for married filing jointly, and \$2300 for all others. HB 2747A, however, goes much further, with two expansions.

Each of the expansions in this bill is troublesome. Changing from a capped amount per taxpayer, to a cap per beneficiary means a potential dramatic increase

¹ The Oregon Opportunity Grant programs’ \$137 million and the operations budget to community colleges and universities of \$1,100 million is how we do most direct spending for higher ed.

² We do some significant higher ed. spending through the tax code. In 2013, while Federal taxable income was reduced by \$54 million for tuition and fees, the Oregon subtraction added another \$274.3 million to cost, and the Federal adjustment for student loan interest cost another \$153.1 million. The College Savings Plan reduced taxable income by another \$94.3 million. The total means we’ve \$575.7 million of reductions in taxable income for higher ed. This bill asks for more.

³ \$22.4 m as funds going into accounts tax free, and \$10.7 m for funds coming out tax free, or \$33 million total.

in the amount on which more affluent off Oregonians can sidestep paying Oregon income tax.

In my case for instance, it would double my potential tax break, as I have two grandchildren. If I decided to establish and fully fund accounts for the five children of my nieces and nephews, it would increase my potential subtraction from income from \$2230 to \$15,610.

The other benefit in this bill is even more generous. It provides for a 1:1 refundable tax credit, similar to the political donations tax credit, of up to \$350 a year, for taxpayers with an AGI below \$70,000. Roughly 1.2 million of Oregon's 1.6 million taxpayers would be eligible.

Will this help only low and moderate income Oregon taxpayers? No. In three out of the last six years, my AGI was below the \$70,000 mark. I'd have been eligible for the full refundable tax credit, a gift from other taxpayers of \$350, in return for my contribution of only \$350 to a 529 account. Basically, 1.2 million other Oregonians and I, if we have a couple of weeks' patience, can get the state to put \$350 into a college savings plan.

Three hundred and fifty dollars is more than the typical Oregon taxpayer would save in taxes via the 529 program unless they make more than \$6000 in contributions in a given year.⁴ How is that fair or logical?

There is no reasonable way to estimate the long term financial impact of this bill. But it will certainly reduce your ability to fund higher education and Oregon Opportunity Grants.

We simply can't afford this extravagant bill.

The same day this bill was heard in its prior committee, they also considered a bill to reduce the cost of textbooks by putting more money into the on-line textbooks program that will save students an estimated \$3 million a year. This program might be a better use of our money. OUS would get a grant for \$5 m to encourage the program, to provide grants of \$20,000 to faculty to write the textbooks, drawing from faculty at various universities. Free online textbooks is a great idea. If we have an extra \$5 million, this would be a significant benefit for college students – of all income levels -- in Oregon and elsewhere.

We read the bills and follow the money

⁴ The average effective tax rate in Oregon is 5.8%. $5.8\% \times \$6000 = \348