Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2023 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 23-2133/1	Introduction Number SB-0752

Description
modifying the tax treatment of college savings accounts and the employee college savings account contribution credit

Fiscal Effect

State:
☐ No State Fiscal Effect
☐ Indeterminate
☐ Increase Existing Appropriations
☐ Decrease Existing Appropriations
☐ Create New Appropriations
☐ Increase Existing Revenues
☒ Decrease Existing Revenues
☒ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☒ No
☐ Decrease Costs

Local:
☐ No Local Government Costs
☐ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
☐ Towns ☐ Village ☐ Cities
☐ Counties ☐ Others
☐ School Districts ☐ WTCS Districts

Fund Sources Affected
☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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LRB Number **23-2133/1**	Introduction Number **SB-0752**	Estimate Type **Original**
Description modifying the tax treatment of college savings accounts and the employee college savings account contribution credit		

Assumptions Used in Arriving at Fiscal Estimate

This bill modifies the individual income tax treatment for contributions to and withdrawals from college savings accounts and the employee college savings account contribution credit.

CONTRIBUTIONS AND WITHDRAWALS FROM COLLEGE SAVINGS ACCOUNTS

The bill makes the following changes to the state individual income tax treatment for contributions to and withdrawals from 529 accounts:

1. Increases the maximum amount that may be deducted. Under current law, the maximum amount that a contributor may deduct is annually indexed for inflation and, in 2023, is $3,860, which is reduced to $1,930 for a married individual filing a separate return or, in the case of divorced parents, each former spouse. The bill increases these amounts to $5,000 and $2,500, which are indexed annually for inflation, and repeals the limitation for divorced parents.

Based on an analysis of existing college savings account claims, increasing the maximum amount that may be deducted will reduce revenue by approximately $1.7 million annually, beginning in fiscal year 2025. The change in the cap is not expected to affect contributions for individuals who contribute less than the current maximum or more than the maximum under the bill.

2. Requires the use of a first in, first out method of accounting for purposes of provisions in current law requiring that account withdrawals be added to income for state tax purposes and restricting carry-overs of contributions in excess of the maximum deduction threshold if the carry-over amount was withdrawn from the account within 365 days of being contributed.

This provision conforms to current administrative practice and will not result in any additional fiscal effect.

3. Conforms the definition of "qualified higher education expense" to federal law. In recent years, the federal definition of "qualified higher education expense" has been expanded to include tuition expenses for elementary and secondary schools, expenses for apprenticeship programs, and qualified education loan repayments. The bill conforms state law to the federal definition.

The provision clarifies current law, so the department does not anticipate a separate fiscal effect. Because the provision conforms to federal law, Wisconsin will automatically adopt any future changes made to the referenced federal sections.

EMPLOYEE COLLEGE SAVINGS ACCOUNT CONTRIBUTION CREDIT

Additionally, the bill modifies the tax credit that may be claimed by an employer for contributions to an employee's 529 account. Under current law, the maximum credit per employee is 25 percent of the amount the employer contributes to the 529 account, up to a maximum contribution that is 25 percent of the maximum amount that an individual contributor may deduct under state law. For 2023, the maximum credit is $241.25 per employee. Under the bill, the maximum credit per employee is 50 percent of the amount the employer contributes to the 529 account, not exceeding a maximum credit of $800, adjusted annually for inflation. The bill also specifies that sole proprietors may claim the credit and that the credit may only be claimed for a contribution to an employee's 529 account if the employee's compensation is reported, or required to be reported, on a W-2 form issued by the employer.

The existing employer contributions credit has generated minimal claims and reduced revenue by marginal amounts. As such, increasing the amount of the credit for existing employer contributions would result in a minimal revenue loss. However, to the extent that allowing sole proprietor claims creates a new pool of credits, the fiscal impact will be larger.

According to the American Rescue Plan Act (ARPA) Net Tax Reduction Calculation Update memo released by the Department of Administration on 8/28/2023, the remaining margin for tax reductions before triggering potential SLFRF recoupment at $113 million for fiscal year 2024 and $319 million for fiscal year 2025. This bill would reduce these margins by the amount of fiscal effect.

Long-Range Fiscal Implications

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Fiscal Estimate Worksheet - 2023 Session

Detailed Estimate of Annual Fiscal Effect

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

II. Annualized Costs:	**Annualized Fiscal Impact on funds from:**	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	$	$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	**$**	**$**
B. State Costs by Source of Funds		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		

III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)		
	Increased Rev	Decreased Rev
GPR Taxes	$	$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	**$**	**$**

NET ANNUALIZED FISCAL IMPACT		
	State	Local
NET CHANGE IN COSTS	$	$
NET CHANGE IN REVENUE	$See Text	$

Agency/Prepared By	**Authorized Signature**	**Date**
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