

STATEMENT OF PURPOSE

RS26025C1

Nonqualified withdrawals Section

This legislation amends Idaho Code section 63-3022 to tax the earnings portions only of a non-qualified withdrawal from the Ideal- Idaho 529 College Savings Program.

The federal 529 law stipulates that all college savings contributions are deposited post-tax. This is observed in Idaho as well. Currently, federal and Idaho 529 laws treat nonqualified withdrawals differently. The federal law states that nonqualified withdrawals are taxed on the earnings portion only as the principle has been previously taxed. Idaho Code 63-3022 requires that a nonqualified withdrawal from the Idaho College Savings Program be taxed on the entire amount withdrawn. This legislation changes Idaho code to tax the earnings portion only of nonqualified withdrawals. This alleviates a double tax on principle contributions. It also ensures that the treatment of nonqualified withdrawals are consistent in federal and state laws and compare equally with all other 529 counterparts nationally.

ABLE rollovers

The Federal Tax Cuts and Jobs Act of 2017 included text to allow for rollovers from a state qualified tuition program (Idaho's College Savings Program) to a qualified Achieving a Better Life Experience (ABLE) program account. This legislation adds a recapture provision for a two-year period for contributions previously deducted through the Idaho College Savings Program ensuring that the treatment of rollovers to other programs are consistent. Idaho does not have an Achieving a Better Life Experience (ABLE) program. Data is not available in Idaho or from the social security administration indicating how many Idahoans possibly have an ABLE account in another state.

FISCAL NOTE

Nonqualified withdrawals:

The estimated fiscal impact of this change is \$108,742. This is the estimated amount that has been over taxed to the individuals taking a nonqualified withdrawal. This number reflects the 267 accounts that took a nonqualified withdrawal in 2017. It calculates the maximum taxes due on the full withdrawal versus the taxes due on the estimated earnings portion of these withdrawals.

ABLE rollovers:

This change does not have a fiscal impact as a rollover from an IDEal - Idaho College Savings Program account to an ABLE program account has not been an option in the past.

Contact:

Christine Stoll, Executive Director
Idaho College Savings Program
(208) 332-2935

DISCLAIMER: This statement of purpose and fiscal note are a mere attachment to this bill and prepared by a proponent of the bill. It is neither intended as an expression of legislative intent nor intended for any use outside of the legislative process, including judicial review (Joint Rule 18).