# **Department of Finance and Administration**

# Legislative Impact Statement

# Bill: HB1902Amendment Number: H1 (3/17/15 Engrossment)Bill Subtitle: TO AMEND THE LAW CONCERNING COMPENSATION AND BENEFITS OF STATEEMPLOYEES; AND TO ALLOW A STATE EMPLOYEE TO CONTRIBUTE TO CERTAIN COLLEGESAVINGS PLANS WITH A VOLUNTARY DEDUCTION FROM HIS OR HER PAY.

#### Basic Change : Sponsor: Rep. Sabin

HB1902 will allow state employees to contribute to certain college savings plans with a voluntary deduction from his or her pay. Any sum deferred under the new subchapter will not be subject to income tax until a distribution is made to the state employee or a beneficiary from the tuition savings program. The bill is effective January 1, 2016.

#### Revenue Impact :

Estimate reduction to general revenue of less than \$50,000 for FY2017 and following.

#### Taxpayer Impact :

State employees will be allowed to defer income to the Tuition college savings program through payroll contributions. Distributions from the savings programs will be subject to taxation by the recipient at the time of distribution.

# Resources Required :

Employee Benefits Division and payroll departments will need to update/create computer programs, forms, and instructions for the program.

#### Time Required :

Adequate time is provided.

# Procedural Changes :

State employees and appropriate staff will need to be informed and trained for the new program. The Department of Finance and Administration is given authority to promulgate rules to administer the subchapter.

# Other Comments :

None

# Legal Analysis :

Arkansas previously established a tax-deferred tuition savings program in § 6-84-101 et. seq. Amendment 1 to HB1902 allows state employees to contribute to a "tuition savings program" through voluntary deductions from pay. DFA must establish a contract agreement for state employees to defer compensation for the tuition savings program. Any amount deferred is not subject to Arkansas individual income tax. The Executive Director of Employee Benefits Division of DFA administers this program and is authorized to designate an administrator within each agency to manage that agency's deferrals. Any amount deferred is for the sole benefit of the employees or their beneficiaries.

The contingent effectiveness clause states the subchapter shall not be implemented if prior to January 1, 2016 the DFA determines this bill will compromise the tax-exempt status of the tuition savings plan.

The bill contains a typographical error. There are two statutes titled § 21-5-1306. One statutory section should be renumbered to § 21-5-1307.