

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1509

Bill Subtitle: TO AMEND THE ARKANSAS TAX-DEFERRED TUITION SAVINGS PROGRAM ACT; TO ADOPT RECENT CHANGES CONTAINED IN THE INTERNAL REVENUE CODE; AND TO CHANGE THE NAME OF THE PROGRAM.

Basic Change :

Sponsors: Rep. K. Brown and Sen. J. English

HB1509 changes the name of the "Arkansas Tax-Deferred Tuition Savings Program Act" to the "Arkansas Brighter Future Plan Act." Current law adopts 26 U.S.C. 529 and portions of 26 U.S.C. 529A as they existed on January 1, 2018. HB1509 updates references to those sections by adopting them as they existed on January 1, 2020.

Revenue Impact :

FY2021 - General Revenue reduction of \$28,660

Taxpayer Impact :

These changes will ensure that Arkansas taxpayers will have the same rules for both federal and state income tax concerning 529 Plans.

Resources Required :

Computer programs, tax forms, and instructions will need to be updated.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Department employees will need to be educated as well as the tax community.

Other Comments :

None.

Legal Analysis :

Currently, the Arkansas Tax-Deferred Tuition Savings Program Act adopts 26 U.S.C. § 529 as it existed on January 1, 2018. It allows for the creation of tax-deferred savings accounts to distribute funds to designated beneficiaries to pay for "qualified higher education expenses." Contributions to and withdrawals from the accounts may qualify for special tax treatment.

HB1509 adopts 26 U.S.C. § 529 as it existed on January 1, 2020. The federal government amended 26 U.S.C. § 529 twice between January 1, 2018 and January 1, 2020. The amendments on March 23, 2018 made no substantive changes. The December 20, 2019 amendments make the following

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substantive changes adopted by HB1509:

- Expenses for fees, books, supplies, and equipment required for participation in a qualifying apprenticeship program would be treated as qualified higher education expenses of designated beneficiaries.
- Designated beneficiaries or their siblings could treat up to \$10,000 of distributions from the account used to pay principal or interest on qualified education loans as qualified higher education expenses.

HB1509 requires the Arkansas Department of Finance and Administration to update its individual income tax forms to change references to the "Tax-Deferred Tuition Savings Program" to the "Brighter Future Plan."

HB1509 updates references to 26 U.S.C. § 529A, dealing with programs under the Arkansas Achieving a Better Life Experience ("ABLE") Program Act, within Title Six of the Arkansas Code but does not update references to 26 U.S.C. § 529A within the ABLE Program Act. Page 9 lines 30 and 31 contain a reference to "26 U.S.C. § 529, as it existed on January 1, 2007." This reference should likely read "as it existed on January 1, 2020."

The bill allows contributions to an account meeting the requirements of 26 USC § 529, as it existed on January 1, 2020, to be deducted from a taxpayer's adjusted gross income for tax years beginning on and after January 1, 2021.