

# DEPARTMENT OF TAXATION

## 2006 Fiscal Impact Statement

1. **Patron** J. Brandon Bell, II

2. **Bill Number** SB 264

3. **Committee** Senate Finance

**House of Origin:**

  X   **Introduced**

      **Substitute**

      **Engrossed**

4. **Title** Individual Income Tax: Deduction for  
Contributions to Virginia College Savings  
Plan

**Second House:**

      **In Committee**

      **Substitute**

      **Enrolled**

### 5. **Summary/Purpose:**

This bill would modify the individual income tax deduction available to those who have entered into individual prepaid tuition contracts or savings trust accounts with the Virginia College Savings Plan. The current deduction limitation of \$2,000 per year would be increased to \$3,000 per year for taxable years beginning on or after January 1, 2006, but before January 1, 2008, and to \$4,000 per year for taxable years beginning on or after January 1, 2008.

This bill would also prohibit the Board of the Virginia College Savings Plan from entering into additional prepaid tuition contracts on or after July 1, 2008.

6. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

7. **Budget amendment necessary:** No.

### 8. **Fiscal implications:**

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

The revenue impact of this bill is unknown. While the elimination of prepaid tuition contracts could increase revenue over a period of time, the provisions of this bill that would increase the income tax deduction would have a negative revenue impact. This impact could be up to \$2.1 million per year for the increase to \$3,000 and up to \$4.2 million per year for the increase to \$4,000.

**9. Specific agency or political subdivisions affected:**

Department of Taxation  
Board of the Virginia College Savings Plan

**10. Technical amendment necessary:** No.

**11. Other comments:**

Current Law

Under current law, taxpayers are permitted to deduct the amount paid or contributed during the taxable year for a prepaid tuition contract or savings trust account entered into with the Virginia College Savings Plan. The deduction in any taxable year is limited to \$2,000 per contract or account. The total deduction may exceed \$2,000 when a taxpayer has paid or contributed to more than one contract or account. If the amount paid or contributed is over \$2,000 for any single contract or account, however, the remainder may be carried over and subtracted in future taxable years, provided that the deduction never exceeds \$2,000 in any taxable year. In addition, a purchaser or contributor who has attained age 70 is not subject to the \$2,000 limitation.

Proposal

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cc : Secretary of Finance

Date: 01/16/2006 AMS  
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