

DEPARTMENT OF TAXATION

2007 Fiscal Impact Statement

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

2. **Bill Number** SB 785

3. **Committee** Passed House and Senate

House of Origin:

 Introduced

 Substitute

 Engrossed

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

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. **Summary/Purpose:**

This bill would increase from \$2,000 to \$4,000 the annual individual income tax deduction allowed for purchases and contributions for prepaid tuition contracts or savings trust accounts entered into with the Virginia College Savings Plan.

This bill would be effective for taxable years beginning on or after January 1, 2009.

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

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

8. **Fiscal implications:**

Administrative Costs

TAX considers implementation of this bill as routine, and does not require additional funding.

Revenue Impact

The negative revenue impact of this bill is unknown, but is expected to range between \$7 million and \$32 million per year. This wide range is caused by the rate at which taxpayers claim this deduction. Current research indicates that a significant portion of eligible taxpayers do not claim this deduction. To the extent that taxpayers who currently do not take this deduction are encouraged to do so by this bill, the negative revenue impact has potential to grow.

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

Department of Taxation

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

This bill would increase from \$2,000 to \$4,000 the annual individual income tax deduction allowed for purchases and contributions for prepaid tuition contracts or savings trust accounts entered into with the Virginia College Savings Plan.

cc : Secretary of Finance

Date: 2/20/2007 AMS
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