

BILL SUMMARY
2nd Session of the 57th Legislature

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| Bill No.: | HB 3225 |
| Version: | CS |
| Request Number: | 11240 |
| Author: | Rep. Echols |
| Date: | 2/28/2020 |
| Impact: | Tax Commission Revenue Decrease FY-21: \$121,000 |

Research Analysis

The committee substitute for HB3225 creates an income tax deduction for contributions to accounts established pursuant to the Achieving a Better Life Experience (ABLE) Program. Beginning in tax year 2020, individual filers may deduct up to \$10,000 per year or \$20,000 per year for joint filers for contributions to an eligible ABLE account.

Prepared By: Quyen Do

Fiscal Analysis

Tax Commission analysis reflects that completed for HB 4006, a measure with identical provisions:

ABLE accounts allow the families of disabled young people to set aside money for their care in a way that earns special tax benefits. ABLE accounts work much like 529 accounts which allow parents to save money for their children's college education.

Congress authorized ABLE accounts in the Achieving a Better Life Experience Act of 2014. Although the federal tax code allows for ABLE accounts, it's up to the states to set up and administer the programs—just as the states administer 529 programs. As of 2019:

- An individual can contribute up to \$15,000 a year to any ABLE account
- A disabled individual can be named as the beneficiary of only one ABLE account
- The person must have been blind or disabled before age 26 to qualify

Under current Oklahoma law, interest, dividends and capital gains from funds invested in the ABLE Program are exempt from Oklahoma income taxes. Further, qualified distributions from disability savings accounts established under the ABLE Program are exempt from Oklahoma income tax with respect to the designated beneficiary's income. Nonqualified distributions from a disability savings account established under this measure are subject to Oklahoma income tax to the party, account owner or designated beneficiary who actually makes the withdrawal.

This measure allows an income tax deduction for contributions to ABLE accounts limited to \$10,000 per individual taxpayer (\$20,000 for taxpayers filing a joint return). Amounts contributed but not deducted by the taxpayer in the tax year for which the contribution is made may be carried forward as a deduction from income for up to 5 tax years. Deductions may be taken for contributions made during the tax year and through April 15 of the succeeding tax year, or through the due date of a taxpayer's state income tax return excluding extensions, whichever is later.

Data from the Oklahoma State Treasurer's office indicates that at the end of 2019, there were 265 active ABLE accounts in Oklahoma². To estimate the potential revenue effect of this proposal, it is assumed the maximum contribution of \$15,000 will be made to each account. This results in a potential deduction of \$3,975,000 from Oklahoma income. Applying the average effective tax rate of 3.05% to \$3,975,000 results in a potential decrease in income tax revenue of approximately \$121,000. No growth in the number of eligible ABLE accounts was considered in arriving at this estimate³. No changes in withholding or estimated tax payments are anticipated; therefore, an estimated revenue decrease of \$121,000 in income tax collections is expected in FY21 when the 2020 income tax returns are filed.

² *STABLE Month End Reporting December 2019 Status Report* – email from Tim Allen, Deputy Treasurer for Communications & Program Administration; Oklahoma Treasurer's Office 1/17/2020

³ If the number of accounts were to increase by 50%, the potential revenue impact would be a decrease in income tax collections of \$182,000 using the methodology described above.

Prepared By: Mark Tygret

Other Considerations

None.