



[HF 2340](#) – 529 Plan, Out-of-State Private Schools, Special Needs (LSB5485HV)
Staff Contact: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – New

Description

[House File 2340](#) allows the use of funds withdrawn from Iowa Educational Savings Plan Trust accounts (Iowa Accounts) to be used to pay tuition for students requiring special education and attending out-of-state elementary or secondary schools. With the change, withdrawals made for this purpose will not be subject to Iowa individual income tax. The change is effective beginning tax year 2020.

Background

Current Iowa law allows tax-free withdrawals from Iowa Accounts for elementary and secondary tuition expenses, but the educational institution must be located in Iowa. Withdrawals that are made for any purpose other than those specified in the Iowa Code are to be added to the taxpayer's income for tax purposes in the year of the withdrawal.

Assumptions

- Department of Management school enrollment statistics indicate that 17,041 special needs students are enrolled in Iowa school districts located on the Iowa border.
- From this population of 17,041 it is unknown how many attend or will attend elementary or secondary schools at out-of-state institutions. The Department of Revenue assumes a number equal to 5.0% (851 students) of the identified special needs population will attend out-of-state schools each year and utilize Iowa Account assets for tuition payments.
- Using an average Iowa Account per-family withdrawal statistic provided by the State Treasurer, the Department of Revenue estimates the average tuition withdrawal per student will be \$2,920.
- All statistics cited above are assumed to remain constant.
- The Department of Revenue estimates that the average marginal tax rate for the impacted taxpayers will be 7.1% under the current tax system and 5.8% under the contingent income tax system.
- The contingent income tax system is assumed to become effective for tax year 2023.
- Tax year 2020 projected impacts will reduce income tax revenue for FY 2021.
- The fiscal impact on any local option income surtax for schools will be minor.

Fiscal Impact

The expansion of the Iowa Educational Savings Plan Trust individual income tax exemption is projected to reduce net General Fund revenue by \$175,000 in FY 2021 through FY 2024, and \$145,000 in succeeding fiscal years.

Sources

Department of Revenue
Department of Management
State Treasurer

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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