



[HF 2537](#) – Treasurer of State, 529 Accounts and Unclaimed Property (LSB5342HV)
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Fiscal Note Version – New

Description

[House File 2537](#) relates to the Treasurer of State’s (TOS’s) duties, including Iowa Educational Savings Plan Trust and Iowa ABLE Savings Plan Trust requirements and disposition of unclaimed property. The Bill is organized into two divisions.

Division I, Section 1 — 529 Contribution Increase

Description and Background

Section 1 of this Division increases the maximum contribution to a beneficiary’s 529 college savings account or Iowa ABLE savings account that may be deducted for Iowa income tax purposes to not more than \$5,500 per year. The contribution limit will adjust annually to reflect the increase in the Higher Education Price Index, rounded up to the nearest \$50 or \$100. This Division applies retroactively to January 1, 2024, for tax years beginning on or after that date.

A 529 college savings account is an investment account designed to save for qualified education expenses. College Savings Iowa is a 529 plan administered by the TOS. Currently, under Iowa Code section [12D.3](#), the maximum contribution that may be deducted for Iowa income tax purposes in tax year (TY) 2023 is \$3,785. This amount is adjusted annually to reflect increases in the Consumer Price Index. In TY 2022, the Iowa Department of Revenue (IDR) estimates there were 23,000 beneficiary accounts associated with taxpayers claiming the maximum deduction. At both the federal and State level, 529 account withdrawals that are not for a qualified purpose are subject to income tax.

Assumptions

- The estimated fiscal impact is calculated using the current number of existing 529 plans.
- 50.0% of taxpayers and associated beneficiary accounts that claimed the maximum deduction in TY 2022 will increase their contributions to the proposed new maximum.
- An average State income tax rate of 5.0% is used for TY 2024, decreasing to 4.5% in TY 2025 and to 3.9% each year thereafter.
- The Consumer Price Index is estimated to increase 2.0% between TY 2024 and TY 2029.
- The Higher Education Price Index is estimated to increase 3.0% between TY 2024 and TY 2029.
- Impact to the local income surtax is estimated to represent 2.7% of the impact to the General Fund for both the 529 contribution limit increase and the Roth Individual Retirement Account (IRA) transfer option.
- Tax year impacts will occur in the fiscal year in which the tax year ends (TY 2024 impacts will occur in FY 2025).

Fiscal Impact

Increasing the maximum contribution to a 529 college savings account or Iowa ABLE savings account to \$5,500 is estimated to reduce income tax revenue to the General Fund and local income surtax. The estimated fiscal impact of **Division 1**, Section 1 of HF 2537 is illustrated in **Figure 1**.

Figure 1 — Fiscal Impact of Increasing the Maximum Contribution to \$5,500 (in millions)

	General Fund		Local Income Surtax	
FY 2025	\$	-0.85	\$	-0.02
FY 2026		-0.82		-0.02
FY 2027		-0.74		-0.02
FY 2028		-0.80		-0.02
FY 2029		-0.83		-0.02

Division I, Section 2 — 529 to Roth Individual Retirement Account Transfer

Description and Background

Section 2 of this Division allows a transfer from a 529 educational account to a Roth IRA in accordance with the rules under federal Internal Revenue Code [§529\(c\)\(3\)\(E\)](#) to be exempt from State individual income tax. This Division applies retroactively to January 1, 2024, for tax years beginning on or after that date.

Under the federal Consolidated Appropriations Act, 2023, Pub. L. No. 117-328, transfers from a 529 educational account to a Roth IRA account beneficiary are exempt from federal taxation. The Roth contribution limits and the aggregate lifetime limit are \$35,000 if the 529 educational account has existed for at least 15 years. This federal law was effective January 1, 2024; however, as of February 1, 2024, the Internal Revenue Service (IRS) has not provided any detailed guidance on the rules for these rollovers.

Assumptions

The fiscal impact calculation is based on an [analysis](#) completed by the federal Joint Committee on Taxation on December 22, 2022. The analysis concluded that the 529 account change will reduce federal individual income tax revenues by the following amounts:

- TY 2024 = \$85.0 million
- TY 2025 = \$166.0 million
- TY 2026 = \$182.0 million
- TY 2027 = \$215.0 million
- TY 2028 = 240.0 million

The federal estimates were converted to State General Fund impacts using the following assumptions:

- The share of federal tax statistics represented by Iowa taxpayers is assumed to be 0.8%.
- The average marginal federal tax rate is assumed to be 12.5%.
- The marginal Iowa individual income tax rate is assumed to be:
 - TY 2024 = 5.00%
 - TY 2025 = 4.50%
 - TY 2026 and after = 3.90%
- Tax year impacts will occur in the fiscal year in which the tax year ends (TY 2024 impacts will occur in FY 2025).

Fiscal Impact

The estimated fiscal impact of **Division I**, Section 2 of HF 2537 for the creation of a new tax exemption for transfers from a 529 account to a Roth IRA is projected to reduce the General Fund revenue and local income surtax as shown in **Figure 2**.

Figure 2 — Fiscal Impact of 529 to Roth IRA Transfers (in millions)

	<u>General Fund</u>		<u>Local Income Surtax</u>	
FY 2025	\$	-0.27	\$	-0.01
FY 2026		-0.48		-0.01
FY 2027		-0.45		-0.01
FY 2028		-0.54		-0.01
FY 2029		-0.60		-0.02

Division II — Disposition of Unclaimed Property

Description

This Division removes the requirement for publication of public notice by the TOS for abandoned property, making it optional and at the discretion of the TOS. This Division also allows the TOS to waive the requirement of a claim form and pay or deliver property directly to a person if the person is shown to be the apparent owner. The TOS may use State tax information to identify the property owner.

Fiscal Impact

The fiscal impact for **Division II** is anticipated to be minimal.

House File 2537 Fiscal Impact

The total fiscal impact of HF 2537 is displayed in **Figure 3**.

Figure 3 — Fiscal Impact of HF 2537 (in millions)

	<u>General Fund</u>		<u>Local Income Surtax</u>	
FY 2025	\$	-1.12	\$	-0.03
FY 2026		-1.30		-0.04
FY 2027		-1.19		-0.03
FY 2028		-1.34		-0.04
FY 2029		-1.43		-0.04

Sources

Iowa Department of Revenue
Joint Committee on Taxation
Legislative Services Agency

/s/ Jennifer Acton

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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.
