



# Senate

General Assembly

**File No. 67**

February Session, 2008

Substitute Senate Bill No. 218

*Senate, March 20, 2008*

The Committee on Banks reported through SEN. DUFF of the 25th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

***AN ACT PROVIDING AN INCOME TAX DEDUCTION FOR CONTRIBUTIONS TO ANY QUALIFIED 529 PLAN.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subparagraph (B) of subdivision (20) of subsection (a) of  
2 section 12-701 of the 2008 supplement to the general statutes is  
3 repealed and the following is substituted in lieu thereof (*Effective July*  
4 *1, 2008, and applicable to taxable years commencing on or after January 1,*  
5 *2008*):

6 (B) There shall be subtracted therefrom (i) to the extent properly  
7 includable in gross income for federal income tax purposes, any  
8 income with respect to which taxation by any state is prohibited by  
9 federal law, (ii) to the extent allowable under section 12-718, exempt  
10 dividends paid by a regulated investment company, (iii) the amount of  
11 any refund or credit for overpayment of income taxes imposed by this  
12 state, or any other state of the United States or a political subdivision  
13 thereof, or the District of Columbia, to the extent properly includable  
14 in gross income for federal income tax purposes, (iv) to the extent

15 properly includable in gross income for federal income tax purposes  
16 and not otherwise subtracted from federal adjusted gross income  
17 pursuant to clause (x) of this subparagraph in computing Connecticut  
18 adjusted gross income, any tier 1 railroad retirement benefits, (v) to the  
19 extent any additional allowance for depreciation under Section 168(k)  
20 of the Internal Revenue Code, as provided by Section 101 of the Job  
21 Creation and Worker Assistance Act of 2002, for property placed in  
22 service after December 31, 2001, but prior to September 10, 2004, was  
23 added to federal adjusted gross income pursuant to subparagraph  
24 (A)(ix) of this subdivision in computing Connecticut adjusted gross  
25 income for a taxable year ending after December 31, 2001, twenty-five  
26 per cent of such additional allowance for depreciation in each of the  
27 four succeeding taxable years, (vi) to the extent properly includable in  
28 gross income for federal income tax purposes, any interest income  
29 from obligations issued by or on behalf of the state of Connecticut, any  
30 political subdivision thereof, or public instrumentality, state or local  
31 authority, district or similar public entity created under the laws of the  
32 state of Connecticut, (vii) to the extent properly includable in  
33 determining the net gain or loss from the sale or other disposition of  
34 capital assets for federal income tax purposes, any gain from the sale  
35 or exchange of obligations issued by or on behalf of the state of  
36 Connecticut, any political subdivision thereof, or public  
37 instrumentality, state or local authority, district or similar public entity  
38 created under the laws of the state of Connecticut, in the income year  
39 such gain was recognized, (viii) any interest on indebtedness incurred  
40 or continued to purchase or carry obligations or securities the interest  
41 on which is subject to tax under this chapter but exempt from federal  
42 income tax, to the extent that such interest on indebtedness is not  
43 deductible in determining federal adjusted gross income and is  
44 attributable to a trade or business carried on by such individual, (ix)  
45 ordinary and necessary expenses paid or incurred during the taxable  
46 year for the production or collection of income which is subject to  
47 taxation under this chapter but exempt from federal income tax, or the  
48 management, conservation or maintenance of property held for the  
49 production of such income, and the amortizable bond premium for the

50 taxable year on any bond the interest on which is subject to tax under  
51 this chapter but exempt from federal income tax, to the extent that  
52 such expenses and premiums are not deductible in determining federal  
53 adjusted gross income and are attributable to a trade or business  
54 carried on by such individual, (x) (I) for a person who files a return  
55 under the federal income tax as an unmarried individual whose  
56 federal adjusted gross income for such taxable year is less than fifty  
57 thousand dollars, or as a married individual filing separately whose  
58 federal adjusted gross income for such taxable year is less than fifty  
59 thousand dollars, or for a husband and wife who file a return under  
60 the federal income tax as married individuals filing jointly whose  
61 federal adjusted gross income for such taxable year is less than sixty  
62 thousand dollars or a person who files a return under the federal  
63 income tax as a head of household whose federal adjusted gross  
64 income for such taxable year is less than sixty thousand dollars, an  
65 amount equal to the Social Security benefits includable for federal  
66 income tax purposes; and (II) for a person who files a return under the  
67 federal income tax as an unmarried individual whose federal adjusted  
68 gross income for such taxable year is fifty thousand dollars or more, or  
69 as a married individual filing separately whose federal adjusted gross  
70 income for such taxable year is fifty thousand dollars or more, or for a  
71 husband and wife who file a return under the federal income tax as  
72 married individuals filing jointly whose federal adjusted gross income  
73 from such taxable year is sixty thousand dollars or more or for a  
74 person who files a return under the federal income tax as a head of  
75 household whose federal adjusted gross income for such taxable year  
76 is sixty thousand dollars or more, an amount equal to the difference  
77 between the amount of Social Security benefits includable for federal  
78 income tax purposes and the lesser of twenty-five per cent of the Social  
79 Security benefits received during the taxable year, or twenty-five per  
80 cent of the excess described in Section 86(b)(1) of the Internal Revenue  
81 Code, (xi) to the extent properly includable in gross income for federal  
82 income tax purposes, any amount rebated to a taxpayer pursuant to  
83 section 12-746, (xii) to the extent properly includable in the gross  
84 income for federal income tax purposes of a designated beneficiary,

85 any distribution to such beneficiary from any qualified state tuition  
86 program, as defined in Section 529(b) of the Internal Revenue Code,  
87 established and maintained by this state or any official, agency or  
88 instrumentality of the state, (xiii) to the extent allowable under section  
89 12-701a, as amended by this act, contributions to accounts established  
90 pursuant to any qualified state tuition program, as defined in Section  
91 529(b) of the Internal Revenue Code, established and maintained by  
92 [this] any state or any official, agency or instrumentality of [the] any  
93 state, (xiv) to the extent properly includable in gross income for federal  
94 income tax purposes, the amount of any Holocaust victims' settlement  
95 payment received in the taxable year by a Holocaust victim, (xv) to the  
96 extent properly includable in gross income for federal income tax  
97 purposes of an account holder, as defined in section 31-51ww, interest  
98 earned on funds deposited in the individual development account, as  
99 defined in section 31-51ww, of such account holder, (xvi) to the extent  
100 properly includable in the gross income for federal income tax  
101 purposes of a designated beneficiary, as defined in section 3-123aa of  
102 the 2008 supplement to the general statutes, interest earned on  
103 contributions to accounts established for the designated beneficiary  
104 pursuant to the Connecticut Homecare Option Program for the Elderly  
105 established by sections 3-123aa to 3-123ff, inclusive, and (xvii) to the  
106 extent properly included in gross income for federal income tax  
107 purposes, fifty per cent of the income received from the United States  
108 government as retirement pay for a retired member of (I) the Armed  
109 Forces of the United States, as defined in Section 101 of Title 10 of the  
110 United States Code, or (II) the National Guard, as defined in Section  
111 101 of Title 10 of the United States Code.

112 Sec. 2. Section 12-701a of the general statutes is repealed and the  
113 following is substituted in lieu thereof (*Effective July 1, 2008, and*  
114 *applicable to taxable years commencing on or after January 1, 2008*):

115 The maximum annual modification under subparagraph (B)(xiii) of  
116 subdivision (20) of subsection (a) of section 12-701 of the 2008  
117 supplement to the general statutes, as amended by this act, shall be  
118 equal to the amount of contributions to all accounts established

119 pursuant to any qualified state tuition program, as defined in Section  
 120 529(b) of the Internal Revenue Code, established and maintained by  
 121 [this] any state or any official, agency or instrumentality of [the] any  
 122 state, but shall not exceed five thousand dollars for each individual  
 123 taxpayer, or ten thousand dollars for taxpayers filing a joint return.  
 124 Any amount of a contribution that is not subtracted by the taxpayer in  
 125 the year for which the contribution is made, on or after January 1,  
 126 [2006] 2008, may be carried forward as a subtraction from income for  
 127 the succeeding five years; provided the amount subtracted shall not  
 128 exceed the maximum allowed in each subsequent taxable year.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2008, and applicable to taxable years commencing on or after January 1, 2008</i>	12-701(a)(20)(B)
Sec. 2	<i>July 1, 2008, and applicable to taxable years commencing on or after January 1, 2008</i>	12-701a

**Statement of Legislative Commissioners:**

In section 1, the reference to the 2008 supplement to the general statutes following the string citation was deleted for clarity. The brackets and underlining in section 1 were adjusted to accurately reflect the change in Subpara. (B)(xiii) of Subdiv. (20) and achieve the intent of the committee.

**BA**            *Joint Favorable Subst.-LCO*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either chamber thereof for any purpose:

**OFA Fiscal Note**

**State Impact:**

Agency Affected	Fund-Effect	FY 09 \$	FY 10 \$
Department of Revenue Services	GF - Revenue Loss	2 to 5 million	2 to 5 million

Note: GF=General Fund

**Municipal Impact:** None

**Explanation**

The bill allows taxpayers to deduct contributions to any state-sponsored college savings plan and is estimated to result in a General Fund revenue loss from the Personal Income Tax of between \$2 million and \$5 million per year<sup>1</sup> beginning in FY 09.

Current law only allows a personal income tax deduction for contributions to the Connecticut Higher Education Trust (CHET) plan and costs the state approximately \$3 million per year. The fiscal impact of this bill depends on the degree in which Connecticut residents prefer out-of-state 529 college savings plans to CHET. The CHET plan has recently become more competitive by lowering fees and offering more investment options.

**The Out Years**

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

<sup>1</sup> The estimate is based off of the experience of Kansas and Pennsylvania who also offered a tax deduction to out of state 529 plans. The deduction in Pennsylvania was estimated to cost \$25 million. The estimate above is significantly lower because of the size of the two states and the larger potential deduction Pennsylvania residents can take.

**OLR Bill Analysis****sSB 218*****AN ACT PROVIDING AN INCOME TAX DEDUCTION FOR CONTRIBUTIONS TO ANY QUALIFIED 529 PLAN.*****SUMMARY:**

This bill allows taxpayers to deduct contributions to a qualified state tuition program maintained by any state, rather than just Connecticut's state-sponsored college savings plan (Connecticut Higher Education Trust), from their Connecticut adjusted gross income for state income tax purposes. It limits annual deductions to \$5,000 for individual taxpayers and \$10,000 for joint filers. It allows taxpayers to carry forward any unused deductions for contributions on or after January 1, 2008 for the five following years as long as each deduction does not exceed the annual maximum.

EFFECTIVE DATE: July 1, 2008 and applicable to tax years starting on or after January 1, 2008.

**COMMITTEE ACTION**

Banks Committee

Joint Favorable

Yea 17 Nay 0 (03/04/2008)