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Testimony Regarding

Raised Bill 5628

An Act Concerning the Conversion of College Savings Accounts to Able Accounts

March 18, 2016

Senator Fonfara, Representative Berger and distinguished members of the Finance, Revenue and Bonding Committee, thank you for the opportunity to offer testimony on Raised Bill #5628.

I am John Frost of the Town of Essex, and my wife Carol and I are the proud parents of a 29 year old intellectually disabled son. He lives independently with supports funded by DDS and provided by Vista Life Innovations of Westbrook. Full disclosure: I serve on the State Council on Developmental Services and I am a member of the ABLE Advisory Committee established by the Office of the Treasurer last fall to help with the development and implementation of CT's ABLE Program.

Today I am here in my individual capacity as a parent.

From the title of this bill and use of the words "roll-over" within it, the notion of converting the balance of a CHET account to an ABLE Account, due to a developmental or acquired disability, is a good idea and seems simple enough. However, the inserted new language in the bill permitting "roll-overs" of CHET balances or other state qualified tuition program accounts is qualified by the words "to the extent permitted by federal law." To my knowledge, there is no federal law permitting conversions of Section 529 education savings account balances to ABLE accounts.

Nonetheless, provided that someday conversions of 529 college savings accounts to ABLE Accounts are permitted by federal law, additional language is needed to clarify and affirm the "roll-over" concept for state tax purposes; that the conversion to an ABLE account of both 1) previously deducted contributions made to a CHET account and 2) the remaining accumulated untaxed income in the CHET account will not result in a taxable event on the CT returns of the donor(s) or the ABLE account owner.

For federal tax purposes, conversion of a CHET account to an ABLE account is not currently permitted. Such a distribution would be a non-qualified (i.e. non-educational) expense and subject the entire untaxed accumulated earnings of the closed out CHET account to federal taxation.

Because there was no federal deduction for contributions to a CHET account, there would be no tax event on distributions of unspent contributions for disabled people. Contributions are deemed to be spent first. (A 10% penalty on non-qualified distributions is currently waivable upon proof of disability.)

For the CT return, CHET investment income is tax exempt (as on the federal return), but CHET savers are also eligible for a deduction of up to \$10,000 per year for contributions made to CHET accounts.

Unless HB 5628 is modified to grandfather prior year deductions included in the converted amount, the bill remains unclear as to whether the conversion would subject the CT Donor or the ABLE account owner to the unwinding of those deductions and create taxable income, which I don't think was your goal.

This lack of clarity results from the different tax treatments of contributions to CHET vs ABLE accounts on state returns and could be remedied by both 1) adding language to the bill specifically indicating that conversions are tax free for CT income tax purposes regardless of federal taxability and penalties and 2) take up HB 5014 introduced by Representative Stephen Harding's (107th) proposing deductions for contributions made to ABLE accounts.

What makes CHET accounts so successful in funding family tuition needs is both tax exempt earnings and the deductibility of contributions. The deductibility feature is more important than the amount of the deduction. The ABLE deduction doesn't have to be \$10,000. It could also be revenue neutral through an annual adjustment of some other deduction or be a reducing percentage of federal Adjusted Gross Income i.e. the more one makes the smaller the deduction.

As with H.S.A. accounts, IRA's and CHET accounts, both features encourage the short term saver who will need the money soon as well as the long term saver who will benefit from systematic savings and tax free income.

Finally, as you, our legislators, struggle to prioritize which of the state's core services are to be cut for lack of revenue, the ABLE account will be an increasingly important resource for disabled individuals to fund a lifetime of extraordinary expenses. When permitted by federal law, tax free conversions as contemplated by the bill and deductible contributions will be strong enhancements to the CT ABLE Program.

Thank you.

John H. Frost