Massachusetts Taxpayers Foundation

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Representative Jay R. Kaufman, Chair
Joint Committee on Revenue
State House Room 34
Boston, MA 02133

Dear Chairman Kaufman:

I am writing on behalf of the Massachusetts Taxpayers Foundation in support of *An Act relative to tax deductions for contributions to college savings plans* (S1468, S1604, S1612, H2620, and H2696). These bills would provide income tax deductions to Massachusetts taxpayers for contributions they make to college savings plans, commonly referred to as 529 plans. While the Foundation supports any deduction, it urges the Committee to adopt the higher maximum amounts for allowable deductions – either $5,000 or $10,000 depending on filing status (S1468, S1604), or no cap (H2620) – because, importantly, the deductions are allowed on total contributions and not contributions made to each plan. Under the limits proposed in S1612 and H2696, a two-parent family with 2 children would be able to deduct just $500 in savings per child per year.

A college degree unequivocally increases earnings, and with income inequality at the forefront of state and national policy debates, it is important for the state to consider policies that encourage all Massachusetts residents to save for college. Recognizing the importance of saving for college, 33 of the 41 states with a personal income tax allow a deduction for contributions to 529 plans.[1]

In Massachusetts, a college degree boosts annual earning by nearly $25,000, or 77 percent, compared to earnings for residents with a high school diploma. This gap has only grown: between 2005 and 2013, earnings for Massachusetts residents with a college degree increased at nearly four times the rate of those residents with a high school diploma.[2] In addition, the majority of unfilled jobs in the state require a college degree, and that trend is likely to continue.

The effect of a college degree on earnings is significant in terms of state revenues too.

For example, if a taxpayer manages to contribute a total of $1,000 per year for 18 years, the state would forego a total of $927 in tax revenue over those 18 years, or approximately $52 per year, from the deduction of contributions (assuming a 5.15 percent tax rate for the entire period).

[1] New Hampshire and Tennessee only tax income and dividends. For the purposes of this analysis, these states are treated as if they have no personal income tax.
[2] Nearly 25 percent, or more than 115,000, of Massachusetts residents age 25 and older completed high school and did not attend college. Another 75,000 residents started college but did not complete a degree. The data source for educational attainment is the U.S. Census's American Community Survey, 5-year estimates for 2013; data for earnings is from the 2005 and 2013 ACS 1-year estimates.

Because of the additional earnings a college degree provides, the state would recoup those foregone tax revenues in less than a year.

If the state were to increase the maximum contribution level to $5,000 per year for 18 years, it would forego $4,635 in total, or less than $260 per year, and recover those foregone revenues in less than five years. That timeframe becomes even shorter when taking into account potential salary increases. Furthermore, with the additional income, these graduates will contribute to sales tax revenues and other statewide economic activity.

With the limit increased to $10,000, the state would forego just $515 in revenues per year for a taxpayer making that contribution. In total, the state would forego $9,270 over an 18-year period, and recover those revenues in less than 10 years.

In aggregate terms, the impact of this deduction on state revenues would be comparatively small. North Carolina, a state similar to Massachusetts in many respects, issued an analysis of a proposed deduction of $500/$1,000. At that time, the tax expenditure was estimated to reach $1.3 million in 2007/2008.[3] It is important to note that North Carolina has a higher income tax rate than Massachusetts, and higher tax rate can increase a tax expenditure.[4]

Providing a tax deduction for 529 plan contributions can have a particularly positive effect on the state's low- and moderate-income families because even modest savings increase the likelihood that a student will finish a degree. According to one recent study, children from low- and moderate-income families who have a dedicated savings account with just $1 to $499 are more than 4 ½ times more likely to graduate from college. If the amount set aside increases to more than $500, a child is five times more likely to graduate.[5] It is clear that 529 accounts not only provide a practical vehicle for savings, they also send a message that college is an important and achievable goal.

This legislation would help not only the state's lowest income families, but also would provide much needed assistance to those middle- and higher income taxpayers. Saving for college is a challenge for Massachusetts taxpayers across all income levels. The price to attend the University of Massachusetts-Amherst for an in-state resident will be more than $25,000 for 2015-16; the national average cost of college at private institutions tops $40,000 per year; and one year at several private colleges in Massachusetts will total more than $60,000.[6] By contrast, the median household income in the state is approximately $67,000, and 80 percent of Massachusetts tax filers have an adjusted gross income of less than $91,000 per year.

While the enormous costs of college deserve a separate discussion, one result is that student debt now averages nearly $30,000.[7] Increasing savings can help to reduce the debt burden on

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[3] North Carolina General Assembly Legislative Fiscal Note, Senate Bill 923, May 27, 2003.

[4] North Carolina's estimate does not assume that the state recovers any revenue from increased salaries.

[5] Elliot, William, Song, H., and Ilsung, N., "Relationships Between College Savings and Enrollment, Graduation, and Student Loan Debt", *Research Brief, Washington University in St. Louis Center for Social Development*, March 2013.

[6] Costs include tuition, fees, and room and board. National average is for 2014-15 school year and from *Trends in College Pricing 2014*, The College Board. Data for UMass and private colleges in Massachusetts are published rates.

[7] Average student debt data is for 2013 graduates and from The Institute for College Access and Success.

graduates, and allow them to contribute to the state's economy more quickly. Rather than paying off loans, graduates will have more flexibility to purchase homes, attend graduate school, or make other choices.

Education, and the opportunity to pursue it, is a cornerstone of our state's Constitution. For 235 years the Commonwealth has upheld that belief and placed the highest value on education. This legislation would extend the state's commitment to education and, perhaps most importantly, be an additional step towards ensuring that Massachusetts continues to foster opportunity for all residents.

Sincerely,

Eileen McAnneny

Eileen McAnneny, President
Massachusetts Taxpayers Foundation

CC: Representative James Arciero
Representative Shawn Dooley
Representative James J. Dwyer
Representative Randy Hunt
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