

SESSION OF 2005

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2222

As Amended by House Committee on
Taxation

Brief*

HB 2222, as amended, would establish the Individual Development Account (IDA) program, a savings program in which certain qualifying families' and individuals' savings deposits could be matched by those from charitable contributions, and contributions would be subject to certain tax exemptions and tax credits.

A partial detailing of the bill's provisions is provided below, from the perspective of the various participating entities or individuals.

Account Holder

- Defined as a legal resident who is the owner of an IDA
 - To open an IDA, a family or individual must have a household income less than or equal to 200 percent of the federal poverty level at the time of application to an IDA program.

- May make deposits to an IDA
 - Calendar year maximum: 30 percent of an account holder's annual personal income not to exceed \$4,000.

 - Account balance maximum: \$50,000.

 - Money may be spent on any of five purposes stated on page 4, beginning line 10, with their noted limitations:
 - Postsecondary education costs for any family member
 - Job training costs for any family member 18+ years of age
 - First-time home-buying costs
 - Primary residence major repairs or improvements

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

- Qualified business capitalization expenses.

- Shall receive a matching contribution from the Community Based Organization (CBO)
 - Deposits can be matched up to a three-to-one ratio.
- Funds in an IDA, including accrued interest, are not to be considered when:
 - Determining eligibility to receive, or determining the amount of, any public assistance or benefits.
- Upon account holder's death, the account may be transferred to a contingent beneficiary
 - If the beneficiary is deceased or otherwise cannot accept the transfer, the balance must be transferred to the CBO's IDA reserve fund.
- Penalty for withdrawing funds not according to the requirements:
 - Forfeit all matching funds;
 - All forfeited matching money goes back to CBO's IDA reserve fund.
- May make an emergency withdrawal of IDA account funds, without penalty, if (a) the emergency is related to the illness of the account holder, illness or death of a family member, or loss of employment of the account holder, and (b) the IDA balance is replenished within the greater of 12 months or the number of months in the IDA program. In this situation the \$4,000 maximum annual IDA deposit amount does not apply, when an account holder is repaying money withdrawn.

Program Contributor

- Definition: Person or entity who contributes to an IDA reserve fund (administered by a Community Based Organization - see below)
- May receive state income tax credit
 - Cannot exceed 50 percent of the contribution amount;
 - Not allowed if the contribution also qualifies for a Community Services Tax Credit (79-32,195);

- Maximum grand total tax credit amount allowable in any fiscal year is \$500,000.
- May use state income tax credit money to offset income tax liability.

Community Based Organization (CBO)

- Administers an IDA reserve fund on a not-for-profit basis.
- Must submit a proposal to the Department of Commerce that includes:
 - A requirement that the CBO make matching contributions to the IDA contributions made by either the account holder or the family;
 - A process for including account holders in decision making regarding the investment of funds in the account;
 - Specifications of the population or populations targeted for priority participation in the program;
 - A requirement that the individual account holder or family attend economic education seminars;
 - A process for including educational seminars in the IDA program;
 - A process for regular evaluation and review of IDA's to ensure program compliance by account holders;
 - A requirement that the CBO obtain an annual independent audit of the CBO's administration of the statutory requirements.

Financial Institution

- Any financial institution seeking to open and maintain IDA's approved by the Secretary of Commerce shall be permitted to do so.
- A financial institution must:
 - Keep account in name of account holder;
 - Allow deposits to be made:
 - By account holder;

- By CBO on behalf of account holder. May include matching money up to a 3-to-1 ratio;
 - Provide that account earns at least market rate interest;
 - Allow account holder to withdraw money on approval of CBO for specified purposes;
 - Work with CBO in submitting required information to Secretary of Revenue so Secretary can verify all tax credit claims by contributors.
- Earnings by any financial institution attributable to its IDA's shall be exempt from privilege taxation.

Secretary of Commerce/Department of Commerce

- Administers the program.
- Issues the request for proposals for Community Based Organizations (CBO's).

Background

Legislation proposing the establishment of an IDA program has been introduced in two previous legislative sessions, including 2004 HB 2409. HB 2222 represents a modified version of earlier bills.

The House Committee amended the bill to:

- Provide for the emergency withdrawal of IDA account funds, without penalty, if (a) the emergency is related to the illness of the account holder, illness or death of a family member, or loss of employment of the account holder, and (b) the IDA balance is replenished within the greater of 12 months or the number of months in the IDA program. In this situation the \$4,000 maximum annual IDA deposit amount does not apply, when an account holder is repaying money withdrawn.
- Specify the qualifying family income threshold (*i.e.*, 200 percent of the federal poverty level or below) applies only at the time of application to an IDA program.

- Limit the maximum annual IDA deposit to 30 percent of an account holder's annual personal income.
- Eliminate the ability of a program contributor to transfer tax credits.
- Eliminate the requirement that the Kansas Department of Revenue verify tax credits received.

The bill's fiscal note indicated HB 2222 would decrease State General Fund revenues by \$502,500 in FY 2006, FY 2007, FY 2008, FY 2009, and FY 2010.

No information exists to estimate accurately the number of taxpayers who would claim the tax credits in HB 2222 or the amount of credits that would be claimed. The Department of Revenue based its estimates on the assumption that 250 accounts would be opened and that the maximum amount of \$4,000 is contributed to each account. The credit limit allowable would be a total of \$500,000. The Department also estimates that privilege taxes lost on interest earned on \$1.0 million for 12 months at 6.0 percent would be \$2,500.