

Department of Legislative Services  
 Maryland General Assembly  
 2018 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 1213  
 Appropriations

(Delegate McMillan, *et al.*)

Maryland 529 - Broker-Dealer College Investment Plan - Required  
 Establishment

This bill requires the Maryland 529 Board to establish a Maryland Broker-Dealer College Investment plan by July 1, 2019. **The bill takes effect July 1, 2018.**

Fiscal Summary

**State Effect:** General fund expenditures increase by \$200,000 in FY 2019 for a start-up loan. General fund revenues decrease due to additional income tax deductions authorized in current law beginning as early as FY 2020, offset in part by loan repayments. Nonbudgeted revenues and expenditures increase beginning in FY 2020.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	\$0	(-)	(-)	(-)	(-)
NonBud Rev.	\$0	-	-	-	-
GF Expenditure	\$200,000	\$0	\$0	\$0	\$0
NonBud Exp.	\$0	-	-	-	-
Net Effect	(\$200,000)	(-)	(-)	(-)	(-)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** Local revenues decrease beginning as early as FY 2020. Expenditures are not affected.

**Small Business Effect:** None.

## Analysis

**Current Law/Background:** The Maryland 529 Board currently operates two qualified tuition plans: the Maryland Prepaid College Trust and the Maryland College Investment Plan. Chapter 548 of 2008 authorized the board to establish the Maryland Broker-Dealer College Investment Plan, subject to specified requirements, but the board has yet to do so. A broker-dealer plan, as opposed to the current investment plan or prepaid plan, is managed, administered, promoted, and marketed by a third party. As of June 30, 2017, the combined assets of the two plans were about \$6.2 billion.

Maryland 529 is a nonbudgeted State entity and generally receives no funds in the State budget for administrative costs. Instead, it is funded through fees assessed on the plans that it manages.

The board may issue requests for proposals (RFPs) to evaluate and determine the means for the administration, management, promotion, or marketing of the broker-dealer plan. The board must consider proposals that meet the following criteria:

- ability to develop and administer an investment program of a nature similar to the objectives of the broker-dealer plan;
- ability to administer financial programs with individual account records and reporting; and
- ability to market the broker-dealer plan to Maryland residents and, at the board's discretion, nonresidents of Maryland.

Other requirements related to the broker-dealer plan generally mirror those of the two existing plans.

### *Tax Benefits and Matching Contributions*

Tax benefits are available independently for both the prepaid plan and the investment plan(s). An account holder can claim a tax deduction of up to \$2,500 for the amount of advanced payments made during the tax year under a prepaid contract with the Maryland Prepaid College Trust. Any unused amount may be carried forward until the full amount of the excess is used.

An account holder can *also* claim a tax deduction for the amount contributed to investment accounts. For each account holder for *all* investment accounts (including any broker-dealer investment accounts), the deduction is capped at \$2,500 per qualified beneficiary. This limitation is increased to \$5,000 for married individuals who file jointly. Any unused amount may be carried forward for up to 10 tax years.

Investment accounts established after December 31, 2016, under the Maryland College Investment Plan are also eligible for a \$250 State matching contribution under specified conditions. The minimum personal contribution necessary to receive a State matching contribution varies with income, up to a maximum of \$125,000/\$175,000 for single/joint filers. Account holders who receive a State matching contribution are not eligible for the tax deduction in that year.

**State Fiscal Effect:** Consistent with past funding of new programs related to Maryland 529, it is assumed that general funds are provided in fiscal 2019 for start-up costs associated with the broker-dealer plan, including any RFP development or other related costs, subject to full repayment beginning as early as fiscal 2020 from fees assessed on the new plan's account balances. Maryland 529 is unable to determine the costs associated with establishment of the broker-dealer plan at this time. This estimate assumes approximately \$200,000 in RFP development and related costs; actual costs may vary from this estimate.

Therefore, general fund expenditures increase by \$200,000 in fiscal 2019. Nonbudgeted revenues increase beginning in fiscal 2020 from fees assessed on the new plan and nonbudgeted expenditures increase for any ongoing expenditures associated with the broker-dealer plan. Accordingly, general fund revenues increase beginning as early as fiscal 2020 from loan repayments made by the Maryland 529 Board to the State.

General fund revenues decrease beginning as early as fiscal 2020 from income tax deductions taken for contributions to the broker-dealer plan. However, for each account holder for *all* investment accounts (including broker-dealer investment accounts), the deduction is capped at \$2,500 per qualified beneficiary. Therefore, general fund revenues decrease only from contributions made to broker-dealer accounts by account holders who are not otherwise at the tax deduction limit because of contributions made to existing investment accounts. The amounts cannot be reliably estimated at this time.

**Local Revenues:** Local government revenues decrease beginning as early as fiscal 2020 from income tax deductions taken for contributions to the broker-dealer plan. The amount is limited for the same reasons as discussed above.

---

### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland 529; Department of Legislative Services

**Fiscal Note History:** First Reader - March 4, 2018  
mm/rhh

---

Analysis by: Stephen M. Ross

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510