



4 reasons why a new state tax break for private school tuition would hurt public education in Alabama

By Kimble Forrister, executive director

Alabama allows a state income tax deduction for contributions to college savings accounts known as 529 plans. But **HB 251** and **SB 189** would let Alabamians use 529s to get a state tax break on tuition at K-12 private schools as well. Proponents say the move would do little harm to Education Trust Fund (ETF) revenues. But there are four reasons to believe the change would cost the ETF millions of dollars a year:

- 1. This bill would change the nature of 529s in Alabama.** 529 plans originally were designed as long-term savings plans for college costs. But if this proposed change is enacted, Alabama's 529s could end up looking much more like a short-term tax break for private K-12 school tuition instead. By simply putting up to \$10,000 for tuition payments in a 529 and then immediately withdrawing it, a couple could save up to 5 percent in state income taxes on that amount.
- 2. It's reasonable to expect that participation rates in 529s for K-12 private school tuition would be much higher than those for college.** Many parents can't afford to save for their children's college, so they hope for scholarships and loans to help cover the cost. But most parents of Alabama's 83,000 private school students obviously can afford to pay tuition – because they already do.
- 3. Private schools and tax professionals likely would promote 529s in a whole new way.** Colleges generally don't promote 529s. Instead, they promote themselves as the college to choose. But many K-12 private schools likely would promote 529s for their students, as 529s essentially would offer parents a tax break of up to 5 percent on tuition. Many tax advisers also would urge parents with children in private school to use 529s as a tax-savings device.
- 4. The ETF's revenue loss could add up quickly.** Alabama allows couples to deduct 529 contributions of up to \$10,000 per year. At a 5 percent income tax rate, each maximum contribution would cost the ETF \$500 a year. And the potential revenue loss for the ETF could extend even further: Alabama allows grandparents to deduct contributions to their grandchildren's 529s as well.