Date of Hearing: March 24, 2021

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Jose Medina, Chair
AB 340 (Ward) – As Introduced January 28, 2021

SUBJECT: Golden State Scholarshare Trust.

SUMMARY: Adds expenses associated with participation in a registered apprenticeship program and payment on the principal or interest of a qualified education loan to the definition of "qualified higher education expenses" under the Golden State Scholarshare Trust Act.

EXISTING LAW:

1) Establishes the Golden State Scholarshare Trust Act as the California's state-sponsored college savings plan, pursuant to Section 529 of the Internal Revenue Code. Defines "qualified higher education expenses" to mean the expenses of attendance at an institution of higher education, as specified (Education Code (EC) Section 69980, et seq.).

2) Establishes the Scholarshare Investment Board, which consists of the Treasurer, the Director of Finance, the Executive Director of the State Board of Education, a member of the Student Aid Commission appointed by the Governor, a member of the public appointed by the Governor, a representative from a California public institution of higher education appointed by the Senate Committee on Rules, and a representative from a California independent college or university or a state-approved college, university, or vocational/technical school appointed by the Speaker of the Assembly. The Treasurer serves as chair of the Board (EC Section 69984).

FISCAL EFFECT: Unknown

COMMENTS: *Background*. In December of 2019, Congress approved and the President signed into law H.R. 1865, also known as the *Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019*, which expands the use of distributions from qualified tuition plans (also known as 529 plans). Specifically, the SECURE ACT now allows for the following:

1) Tax-free treatment applicable to distributions for higher education expenses to apply to expenses for fees, books, supplies, and equipment required for the participation of a designated beneficiary in an apprenticeship program. The apprenticeship program must be registered and certified with the Secretary of Labor under section 1 of the National Apprenticeship Act; and,

2) Tax-free treatment to apply to distributions of certain amounts used to make payments on principal or interest of a qualified education loan. No individual may receive more than $10,000 of such distributions, in aggregate, over the course of the individual's lifetime. To the extent that an individual receives in excess of $10,000 of such distributions, they are subject to the usual tax treatment of 529 distributions (i.e., the earnings are included in income and subject to a 10-percent penalty). The provision contains a special rule allowing such amounts to be distributed to a sibling of a designated beneficiary (i.e., a brother, sister, stepbrother, or stepsister). This rule allows a 529 plan account holder to make a student loan distribution to a sibling of the designated beneficiary without changing the designated

beneficiary of the account. For purposes of the $10,000 lifetime limit on student loan distributions, a distribution to a sibling of a designated beneficiary is applied towards the sibling's lifetime limit, and not the designated beneficiary's lifetime limit. The deduction available for interest paid by the taxpayer during the taxable year on any qualified education loan is disallowed to the extent such interest was paid from a tax-free distribution from a 529 plan.

The effective date of these new amendments apply to distributions made after December 31, 2018. However, California law does not conform with federal law; if a California resident were to use their distributions for either purpose, they would be subject to state taxes and penalties.

Purpose of the measure. According to the author, apprenticeship programs have long served as a strategy to help people gain access to the job market through on-the-job training, most notably in the construction trades. More recently, these training programs have expanded into professions such as healthcare and information technology professions.

Some apprenticeship programs offer college credit through a community college or a four-year college and costs of apprenticeships vary by the employer and type of job training. In some cases, the employer covers all or a portion of the instruction. Under the SECURE Act, tax-free distributions from 529 plans can be used to pay for the following expenses associated with apprenticeship programs: fees, textbooks, supplies, and equipment, including tools required for trades.

The author contends that, "In light of the sharp increase in tuition rates at traditional four-year institutions and the growing amounts of student loan debt that students often encumber as a result, a growing number of people are choosing to pursue the apprenticeship career path."

Further, the author states that, "California's ScholarShare 529 is a versatile savings vehicle for families with traditional and non-traditional future postsecondary educational needs. However, with financial insecurity being exacerbated by the pandemic, it is imperative that state law conform with federal law to ensure Californians have the tools needed to ensure their child's education can be realized."

This measure conforms state law to federal law; thereby allowing taxpayers the ability to benefit for expenses related to eligible apprenticeship programs and payments on principal or interest of a qualified education loan.

The Golden State Scholarshare Trust. Established in 1999 and administered by the State Treasurer's Office, the Golden State Scholarshare Trust offers California families a tax-advantaged college tuition savings plan that allows them to invest and save for college. Under this program, a participant opens an account on behalf of a designated named beneficiary. The after-tax money contributed by the participant to the account is placed in a trust, and investment earnings grow tax-deferred. The program offers federal and California income tax-free treatment for qualified withdrawals from a Scholarshare account. A qualified withdrawal is one that is used to pay for qualified higher education expenses at any eligible postsecondary educational institution throughout the U.S., including many vocational schools.

Committee comments. Committee Staff understands that the author's intent of this measure is to ensure all types of 529 plans, not just ScholarShare 529, are covered by the provisions of this bill.

Moving forward, the author may wish to work with Legislative Counsel to ensure that the intent aligns with the measure in print.

REGISTERED SUPPORT / OPPOSITION:

Support

American Federation of State, County and Municipal Employees, AFL-CIO
California State Treasurer (Sponsor)

Opposition

None on file.

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