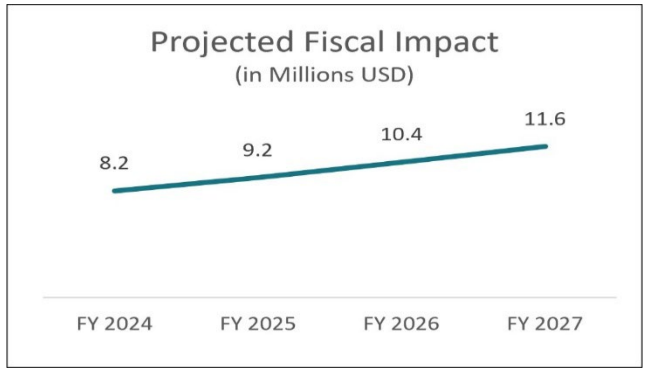
Contributions to a Section 529 College Savings Plan Subtraction

Tax Expenditure Initial Review - TEB 1.4.12

Tax Expenditure Facts

Year Enacted	2017
Statute	Minnesota Statutes 2025, section 290.0132, subdivision 23
Tax Type	Individual Income Tax
Provision Type	Subtraction
Latest Fiscal Impact Estimate	$11,600,000 – Fiscal Year 2027
Latest Claims Estimate	43,500 – Tax Year 2022
Expiration Date	None



Tax Expenditure Description

A subtraction from federal adjusted gross income is allowed for qualified contributions to a Section 529 plan. The maximum subtraction is $3,000 for married joint filers and $1,500 for all other filers. The subtraction is limited to returns that do not claim the Section 529 plan credit (TEB 1.6.21).

Additional Background Information

Section 529 plans are tax-advantaged investment accounts designed to help families save for postsecondary education expenses. [i] Plans are created and administered by states. The Minnesota 529 College Savings Plan (MCSP) was authorized by the legislature in 1997 and began operating in 2002.[ii] As of December 31, 2025, MCSP had 110,861 open accounts and $2.37 billion of assets under management.[iii] Investment income accrued from 529 plans is exempt from federal and Minnesota income tax if used for qualifying educational expenses.

From 1997 to 2011, Minnesota offered a grant matching program for 529 plans. Currently, the state offers a nonrefundable income tax credit and income tax subtraction for contributions to any state-sponsored 529 plan.[iv]

Subtraction beneficiaries include qualifying taxpayers who contribute to a Section 529 savings plan. The subtraction is administered by the Department of Revenue. The subtraction for 529 plan contributions reduces the amount of individual income tax revenue that would otherwise be generated, and income tax revenue is deposited in the state General Fund except as provided in the Minnesota Constitution or Minnesota Statutes, section 290.62.

Proposed Tax Expenditure Objective for Consideration

The objective of the 529 College Savings Plan Subtraction is to incentivize tax filers to save for future education expenses by reducing taxable income at all income levels.

Sources

The proposed objective is based on bill author committee testimony during the 2014, 2015 and 2017 legislative sessions. A 529 plan subtraction was introduced in HF1955 and companion bill SF1834 during the 2014 session but not included in the omnibus tax bill HF3167. The following year, HF1479 and companion bill S.F. 293 proposed a 529 plan subtraction and credit that was included in the omnibus tax bill HF848. The tax bill was eventually vetoed, but similar subtraction language was included in 2017 companion bills HF1869 and SF1634. The subtraction was included in the omnibus tax bill HF4, which was vetoed, and the following omnibus tax bill HF1, which was enacted during the 2017 first special session. Bill authors testified in 2014, 2015, and 2017 that the subtraction was intended to encourage saving for postsecondary expenses and reduce graduate debt.[v] The subtraction proposed in all six bills is similar to what was ultimately enacted in HF1, although maximum subtraction amounts differ.

The 2015-2016 omnibus tax bill, HF848, included an intention in engrossments one through three. The subtraction was “intended to increase saving for higher education expenses. The standard against which effectiveness is to be measured is the change over time in the estimated number of Minnesota residents making contributions to the Minnesota College Savings Plan, and in the amount contributed, as tracked by the Minnesota Office of Higher Education.”[vi]

Potential Metrics and Performance Measures

Comparing the number of 529 plan account holders and median amount contributed before and after enactment may indicate if the subtraction has encouraged increased use of 529 savings plans.

A longitudinal study of postsecondary graduate debt before and after enactment may provide insight on the relationships between the subtraction, 529 plan usage, and debt outcomes.

Contact Information and Disclaimer

This tax expenditure review was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission pursuant to Minnesota Statutes 2025, section 3.8855, subdivision 4.

Notice: Proposed Tax Expenditure Objective statements are not binding authority and should not be used as a legal interpretation of any tax expenditure statute.

For questions regarding this review, please contact the Legislative Budget Office at 651-297-7146 or lbo@lbo.mn.gov.

For more information, please visit the [Tax Expenditure Review Commission website].

[i] "An Introduction to 529 Plans," U.S. Securities and Exchange Commission, last modified January 28, 2026, https://www.sec.gov/about/reports-publications/investor-publications/introduction-529-plans; Congressional Research Service, *Tax Expenditures: Compendium of Background Material on Individual Provisions* (Washington: U.S. Government Publishing Office, December 2022), 703-709, https://www.govinfo.gov/content/pkg/CPRT-117SPRT49569/pdf/CPRT-117SPRT49569.pdf; Sean Williams and Joel Michael, *Saving for College: 529 Plans* (St. Paul, MN: Minnesota House Research Department Topic Brief, 2017), https://www.house.mn.gov/hrd/pubs/ss/ss529plan.pdf.

[ii] The Minnesota 529 College Savings website can be found at https://www.mnsaves.org/. Further information on qualified education expenses and eligible institutions can be found at https://www.mnsaves.org/resources/faq#withdrawals.

[iii] "529 Plan Data," College Savings Plan Network, accessed June 25, 2026, https://www.collegesavings.org/wp-content/uploads/2023/09/Website-data-for-06.30.23.pdf.

[iv] Sean Williams, *Minnesota's Tax Credit and Subtraction for 529 Contributions* (St. Paul, MN: Minnesota House Research Department Topic Brief, 2024), https://www.house.mn.gov/hrd/pubs/ss/ss529cred.pdf. A taxpayer may claim either the credit or the subtraction. For more information on the discontinued matching grant program, see Minnesota Statutes 2010, section 136G.11, available online at https://www.revisor.mn.gov/statutes/2010/cite/136G.11.

[v] House Higher Education Policy and Finance Committee hearing (March 24, 2015). HF 1479 is discussed at 1:12:25 of the audio recording, available at https://www.lrl.mn.gov/audio/house/2015/hied032415.mp3; House Taxes Committee hearing (April 16,2015). HF 1479 is discussed at 00:31:15 of the audio recording, available at https://www.lrl.mn.gov/audio/house/2015/taxes041615.mp3; Senate Committee on Higher Education and Workforce Development hearing (February 24, 2015). SF 293 is discussed at 00:19:40 of the audio recording, available at https://www.lrl.mn.gov/media/file?mtgid=890146; Senate Tax Reform Division hearing (March 11, 2015). SF 293 is discussed at 00:00:35 of the audio recording, available at https://www.lrl.mn.gov/media/file?mtgid=890229; House Taxes Committee hearing (March 8, 2017). HF1869 is discussed at 14:16 of the audio recording, available at https://www.lrl.mn.gov/audio/house/2017/taxes030817.mp3; Senate Committee on Taxes hearing (March 22, 2017). SF1634 is discussed at 1:55:30 of the audio recording, available at https://www.lrl.mn.gov/media/file?mtgid=900417.

[vi] House File 848-3E (2015), Article 10, Section 26, Subdivision 10.