

What's a Few Billion between Friends? The Fuzzy Numbers on 529s for K-12 Tuition

Originally published in [Education Next](#)

In recent weeks, critics, mostly in the form of Nat Malkus, in his December 19th [New York Times Op-Ed](#), his [NPR Op-Ed](#); his [U.S. News & World Report Op-Ed](#); and the voice of austerity in [any related story](#), have decried the recent federal expansion of 529 accounts. In his *NYT* piece, for example, Malkus asserts that allowing parents to use their tax-advantaged accounts for K-12 expenses in addition to college tuition will have “outsized impacts on the state income tax bases.” Because, as Malkus explains, there is a state tax savings for an individual socking away the maximum allowable \$10,000 New York deduction, and “that modest \$600 for families takes a much bigger cumulative toll on New York’s income tax base. With about 465,000 New York private school students, roughly \$3 billion might be cut from New York’s income tax base.”

The expansion, concludes Malkus, confirms “the worst caricature of Republicans and education – taking money from the poor to give to the rich.” Sounds pretty appalling!

Appalling, that is, until one takes a closer look.

Let’s start with the first figure provided: “about 465,000 New York private school students.” Actually, after removing pre-K students, who are excluded from the new law, the latest NYS State Education Department [census](#) documents 407,176 New York State K-12 private school students.

Ok, so 407,176 X \$10,000 = \$4.07 Billion. So far, looks like Malkus was on to something.

But the larger corrections flow from what Malkus *does not say*. To approach the \$3 billion figure, one must assume that there will be a \$10,000 deduction taken *for every one of those 407,176 children*. However, as Malkus notes, the \$10,000 cap is *per family*, not per child. Many families have more than one child, thereby reducing the per capita benefit. Moreover, religious families, whose values may encourage larger family sizes, are more likely to use nonpublic and parochial schools. Conservatively estimating that the average NYS nonpublic school student has one sibling:

\$4.07 Billion / 2 = \$2.04 Billion. Getting Interesting.

Next, we must remember that the \$10,000 deduction is only for those with a filing status of married filing jointly. Separated? Divorced? Sorry, your deduction is capped at \$5,000. This impacts the [38% of American families not living with two married parents](#). Not to mention couples who opt to file separately for ancillary tax reasons, such as maximizing claims for medical expenses. So approximately 45% of filers will be capped at \$5,000. Accounting for that factor:

\$2.04 Billion X 55% = \$1.12 Billion

(\$2.04 Billion X 45%) X 0.5 = \$458 Million

\$1.12 Billion + \$458 Million = \$1.58 Billion

Then there is an even more serious oversight—the *assumption that every individual who can take advantage of every tax benefit, will*. Accountants likely tear their hair out in frustration every year as they watch, firsthand, the tax planning opportunities their clients let slip by. In fact, Sallie Mae, America's largest private student lender, [reported](#) that *only 13% of college students used a 529 savings vehicle to pay for college last year*. And 529 plans are nothing new; they have existed since 1996. While this 13% figure has remained relatively stable over the past 20 years, in the interest of caution, let's assume that the utilization

rate of 529s for K-12 *instantly doubles* as compared to the historic average.

\$1.58 Billion X 0.26 = \$410 Million

But one of the greatest sleights of hand critics perform is conflating, or at least failing to articulate, that a decrease in reported income does not equal the *actual tax dollars NYS loses*. Yes, as much as \$410 million in new deductions may be taken by New Yorkers following the passage of the federal 529 law. But since the typical New York State effective tax rate hovers at 5-6%, the actual loss to New York coffers will be a tiny fraction of that:

\$410 Million X 0.06 = \$25 Million!

\$25 Million out of NY's \$153.1 billion [budget](#)—0.016%—is hardly worth mentioning. This does not even account for the fact that those who will park money in a 529 may never contribute the maximum deductible amount of \$5,000 or \$10,000 every year, as assumed in this scenario.

Sure, you can quibble with the numbers. Perhaps 529s will become more popular one day. Perhaps there is another factor this quick workup did not account for. The point is simply that there is more to the story than multiplying the (incorrect) number of students by the maximum potential deduction.

Almost as interesting though, is the irony of critics arguing for change – eliminating state tax incentives for 529 contributions – that would perpetuate the very injustice they lament. Countermanding the ability of 529s to enjoy the immediate state tax deduction would leave only the long-horizon federal benefit. While nearly anyone earning income benefits from a state tax deduction, only taxpayers with disposable income can wait for the federal tax benefit on earnings to accrue. It is therefore incongruous to advocate for legal changes that will allow 529s to disproportionately

benefit the wealthy and then exhort that the 529 expansion is “taking money from the poor to give to the rich.”

Then there is another missing piece of the puzzle – omission of New York *public* schools expenditures. *New York State expends more per public school student than any other state in the nation.* According to the latest [US Census data](#), the expenditure in New York was \$21,206 in 2015, certainly higher today. New York State will spend over \$28 *billion* on K-12 public education in FY 2017 (inclusive of STAR program). With Medicaid (the state’s next biggest ticket item, at \$18.2 billion), public education funding makes up 71% of New York State’s \$64.9 billion non-state operations [budget](#).

Don’t get me wrong, I’m all for a strong public school system. Our country and our children need and deserve it. And Malkus may be correct that 529s are not the perfect school choice solution. But America is about choice and autonomy. Stating that allowing parents to use their 529 savings for K-12 tuition “will erode the tax base that funds public schools” when it will benefit many middle class New Yorkers already taking a 2018 hit with lost state and local deduction opportunities; when the real world state budget impact is demonstrably negligible; and in a state that already spends more per public school pupil than any other—is simply poor public education.