WEST virginia legislature

2023 regular session

Committee Substitute

for

Senate Bill 478

By Senators Grady and Plymale

[Originating in the Committee on Finance; reported on February 9, 2023]

A BILL to amend and reenact §11-21-12m and §11-21-25 of the Code of West Virginia, 1931, as amended; to amend and reenact §11-24-10a of said code, to amend and reenact §18-30-3 of said code; and to amend and reenact §18-30A-3, §18-30A-10, §18-30A-11, and §18-30A-13 of said code, all relating generally to the Jumpstart Savings Program; clarifying that the entire amount of an account distribution used for certain qualified expenses is subject to reducing personal income tax modification; clarifying that the amount of an account distribution is only subject to reducing personal income tax modification to the extent that the amount is not allowable as certain federal deductions; establishing an increasing personal income tax modification for account distributions used for nonqualified expenses and previously applied toward the reducing personal income tax modification for account contributions; defining terms; providing that an employer may not claim a tax credit for matching contributions to an account if the employer is the account owner or account beneficiary; providing that an employer may not claim both the reducing personal income tax modification and the matching credit for an amount contributed to an employee’s account; permitting employers to claim matching credit for certain amounts allowable as federal tax deductions; eliminating a definition related to an obsolete account; defining terms; expanding the occupations and professions in which an individual may incur qualified expenses; eliminating the minimum deposit required to open an account and for certain opening incentive deposits; authorizing the board to establish a minimum deposit to open an account or for certain opening incentive deposits; establishing retroactive internal effective date of January 1, 2023, for certain provisions; and making technical and clarifying corrections to reporting requirements.

Be it enacted by the Legislature of West Virginia:

CHAPTER 11. TAXATION.

ARTICLE 21. PERSONAL INCOME TAX.

§11-21-12m. Additional modifications related to a Jumpstart Savings Account.

(a) *Modification for contributions*. *—*

(1) For taxable years beginning on or after January 1, 2022, ~~in addition to amounts authorized to be subtracted from federal adjusted gross income pursuant to §11‑21‑12 of this code~~ a modification reducing federal adjusted gross income is hereby authorized in an amount equal to a West Virginia taxpayer’s contribution to a Jumpstart Savings Account for the taxable year in which the payment is made, in accordance with §18‑30A‑1 *et seq*. of this code, but only to the extent the amount is not allowable as a deduction when arriving at the taxpayer’s federal adjusted gross income for the taxable year.

(2) The decreasing modification allowed pursuant to this subsection may not exceed $25,000 in a single taxable year: *Provided*, That the taxpayer may also elect to carry forward the modification over a period not to exceed five taxable years, beginning in the taxable year in which the contribution was made.

(b) *Decreasing modification for qualified distributions* *not deductible from federal adjusted gross income. —*

(1) For taxable years beginning on or after January 1, 2022, ~~in addition to amounts authorized to be subtracted from federal adjusted gross income pursuant to §11‑21‑12 of this code~~, a modification reducing federal adjusted gross income is hereby authorized in an amount equal to the ~~portion~~ entire amount of a distribution from a Jumpstart Savings Account received by a distributee that is used to pay for qualified expenses ~~as defined in §18‑30A‑11 of this code~~ described in §18-30A-3(a)(11)(D). Such decreasing modification is authorized for the taxable year the distribution is made to the distributee, but only to the extent the distribution amount is not allowable as a deduction when arriving at the distributee’s federal adjusted gross income for the taxable year when the distribution was made. Any decreasing modification applied by a distributee shall be subject to disallowance to the extent that the distributed moneys are not used to pay for qualified expenses, as defined in §18‑30A‑11 of this code in the taxable year of receipt of the distribution or the next succeeding taxable year.

(2) The decreasing modification allowed pursuant to this subsection may not exceed $25,000 for the taxable year.

~~(3) For the purposes of this section, the term "distributee" means the beneficiary or the owner of a Jumpstart Savings Account who is authorized to receive distributions from the account, according to §18‑30A‑1~~ *~~et seq~~*~~. of this code and the legislative rules and procedures adopted by the Jumpstart Savings Board.~~

(c) *Increasing modification for distributions not used for qualified expenses. —* For taxable years beginning on or after January 1, 2023, there shall be added to the federal adjusted gross income of a distributee, unless already included in federal adjusted gross income for the taxable year, any amount previously applied to a decreasing modification of federal adjusted gross income pursuant to subsection (a) of this section for any amount contributed to a Jumpstart Savings Account, that is subsequently withdrawn from said account and not used for qualified expenses in the taxable year of receipt of the distribution or the next succeeding taxable year.

~~(c)~~ (d) *Modification for rollover of certain distributions*. *—* ~~In addition to amounts authorized to be subtracted from federal adjusted gross income pursuant to §11‑21‑12 of this code~~ A modification reducing federal adjusted gross income is hereby authorized for the account owner, to the extent that the amount is not allowable as a deduction when arriving at the account owner’s federal adjusted gross income, in the amount as follows:

(1) An amount equal to a distribution from a Jumpstart Savings Account received in the taxable year, if the account owner deposits such amount into a West Virginia ABLE Account within 30 days of receiving the distribution, according to the requirements of §18‑30A‑1 *et seq*. of this code; and

(2) An amount equal to the portion of a distribution received in the taxable year from a college savings account, established pursuant to §18‑30‑1 *et seq*. of this code, if the taxpayer deposits the amount into a Jumpstart Savings Account within 30 days of receiving the distribution according to the requirements of §18‑30A‑1 *et seq*. of this code.

~~(d)~~ (e) Nothing in this section shall be construed to decrease or otherwise impact any person’s federal tax obligations or to authorize any act which violates federal law.

(f) *Definitions. —* For the purposes of this section:

"Distributee" means the person who is authorized to receive distributions from a Jumpstart Savings Account, according to §18‑30A‑1 *et seq*. of this code and the legislative rules and procedures adopted by the Board of Trustees of the West Virginia College and Jumpstart Savings Programs.

"Qualified expense" has the meaning provided in §18‑30A‑3 of this code.

(g) The modifications authorized in this section are authorized in addition to amounts authorized to be subtracted from federal adjusted gross income pursuant to §11‑21‑12 of this code.

(h) The amendments to this section adopted during the regular session of the Legislature, 2023, are effective January 1, 2023.

§11-21-25. Nonrefundable credit for matching contribution to employee’s Jumpstart Savings Account.

(a) A nonrefundable credit against the tax imposed by the provisions of this article is allowed against the tax liability imposed under this article of a qualified employer, for a matching contribution made to a Jumpstart Savings Account in the taxable year, if the ~~beneficiary of the~~ account owner is an employee of the taxpayer and a West Virginia resident, subject to the requirements of §18‑30A‑1 *et seq*. and the following:

(1) The employer must directly contribute an amount to a Jumpstart Savings Account that is equal to a contribution made by the employee to such account in the same taxable year.

(2) The credit allowed by this section may not exceed $5,000 per employee per taxable year.

(3) The amount of the credit may not exceed the portion of the contribution that is attributable to the employer and that would otherwise be derived by the employer as income from his or her business for the taxable year.

(4) The employer may not claim the credit if the employer himself or herself is the account owner or beneficiary of the account to which the matching contribution was made.

(5) ~~An~~ The employer may not claim a credit against more than one type of tax for a single contribution to a Jumpstart Savings Account.

(6) The employer may not claim both the credit and a decreasing modification authorized by §11‑21‑12m of this code for an amount contributed to an employee’s account.

~~(b) The credit provided by this section is only allowed to the extent the amount is not allowable as a deduction when arriving at the taxpayer’s federal adjusted gross income for the taxable year in which the contribution is made~~

~~(c)~~ (b) In order to qualify for the credit provided by this section, an employer must submit any forms or other information, as required by the West Virginia Jumpstart Savings Board or the State Treasurer, and the Tax Commissioner, upon making the contribution.

~~(d)~~ (c) *Conduit Entities and Proprietorships Personal Income Taxes*. —

(1) If the employer directly contributing an amount to a Jumpstart Savings Account is an electing small business corporation (as defined in Section 1361 of the United States Internal Revenue Code of 1986, as amended), a partnership, a limited liability company that is treated as a partnership for federal income tax purposes, or a sole proprietorship, ~~then~~ the credit authorized pursuant to this section is allowed as a credit against the taxes imposed by this article on the flow through income of S corporation shareholders, partners, owners, and limited liability company members derived from such electing small business corporation, partnership, or limited liability company attributable to business or other activity.

(2) If the employer directly contributing an amount to a Jumpstart Savings Account is a sole proprietor, ~~then~~ the credit authorized pursuant to this section is allowed as a credit against the taxes imposed by this article on the income of the sole proprietor attributable to the business.

(3) Electing small business corporations, limited liability companies, partnerships, and other unincorporated organizations shall allocate the credit allowed by this article among its partners, owners, shareholders, or members in the same manner as profits and losses are allocated for the taxable year.

(4) No credit is allowed under this section against any employer withholding taxes imposed by this article.

(5) The credit allowed under this section must be used in the tax year in which the contribution is made. The credit may not be carried back to a prior tax year nor carried forward to a subsequent tax year. Any unused amount of ~~unused~~ the credit is forfeited.

(d) The amendments to this section adopted during the regular session of the Legislature, 2023, are effective January 1, 2023.

ARTICLE 24. CORPORATION NET INCOME TAX.

§11-24-10a. Nonrefundable credit for matching contribution to employee’s Jumpstart Savings Account.

(a) A nonrefundable credit against the tax imposed by the provisions of this article is allowed for a matching contribution to a Jumpstart Savings Account made in the taxable year if the ~~beneficiary of the~~ account owner is an employee of the taxpayer and a West Virginia resident, subject to the requirements of §18‑30A‑1 *et seq*. and the following:

(1) The employer must directly contribute an amount to a Jumpstart Savings Account that is equal to a contribution made by the employee to such account in the same taxable year.

(2) The credit allowed by this section may not exceed $5,000 per employee per taxable year.

(3) ~~An~~ The employer may not claim the credit against more than one type of tax for a single contribution to a Jumpstart Savings Account.

(4) The employer may not claim both the credit and a decreasing modification authorized by §11‑21‑12m of this code for an amount contributed to an employee’s account.

~~(b) The credit provided by this section is only allowed to the extent the amount is not allowable as a deduction when arriving at the taxpayer’s federal adjusted gross income for the taxable year in which the contribution is made~~

~~(c)~~ (b) In order to qualify for the credit provided by this section, an employer must submit any forms or other information, as required by the West Virginia Jumpstart Savings Board or the State Treasurer, or the Tax Commissioner, upon making the contribution.

~~(d)~~ (c) *Conduit Entities Corporation Net Income Tax*. —

(1) If the employer directly contributing an amount to a Jumpstart Savings Account is an electing small business corporation (as defined in Section 1361 of the United States Internal Revenue Code of 1986, as amended), a partnership, or a limited liability company that is treated as a partnership for federal income tax purposes, ~~then~~ the credit authorized pursuant to this section is allowed as a credit against the taxes imposed by this article on the flow through income of S corporation shareholders, partners, owners, and limited liability company members derived from such electing small business corporation, partnership, or limited liability company attributable to business or other activity.

(2) Electing small business corporations, limited liability companies, partnerships, and other unincorporated organizations shall allocate the credit allowed by this article among its corporate partners, owners, shareholders, or members in the same manner as profits and losses are allocated for the taxable year.

(3) No credit is allowed under this section against any employer withholding taxes imposed by this article.

(4) The credit allowed under this section must be used in the tax year in which the contribution is made. The credit may not be carried back to a prior tax year nor carried forward to a subsequent tax year. Any unused amount of ~~unused~~ the credit is forfeited.

(d) The amendments to this section adopted during the regular session of the Legislature, 2023, are effective January 1, 2023.

CHAPTER 18. education.

ARTICLE 30. WEST VIRGINIA COLLEGE ~~PREPAID TUITION AND~~ SAVINGS PROGRAM ACT.

§18-30-3. Definitions.

For the purposes of this article, the following terms have the meanings ascribed to them, unless the context clearly indicates otherwise or as otherwise provided in 26 U.S.C. § 529:

"Account" means a savings plan account established in accordance with this article.

"Account owner" means the individual, corporation, association, partnership, trust, or other legal entity who enters into a savings plan contract and invests money in a savings plan account.

"Beneficiary" means the individual designated as a beneficiary at the time an account is established, the individual designated as the beneficiary when beneficiaries are changed, the individual entitled to receive distributions from an account, and any individual designated by the account owner, his or her agent, or his or her estate in the event the beneficiary is unable or unwilling to receive distributions under the terms of the contract.

"Board" means the Board of Trustees of the West Virginia College and Jumpstart Savings Programs as provided in §18-30-4 of this code.

"Distribution" means any disbursement from an account in accordance with 26 U.S.C. § 529.

"Eligible educational institution" means an institution of higher education or a private or religious primary, middle, or secondary school that qualifies under 26 U.S.C. § 529 as an eligible educational institution.

~~"Jumpstart Savings Expense Fund", for the purposes of this article, means the College and Jumpstart Savings Administrative Account, established in §18‑30‑8 of this code~~

"Outstanding obligations of the Prepaid Tuition Plan" means the outstanding contract obligations of the board to persons owning Prepaid Tuition Plan accounts. The term also includes any fees, charges, expenses, penalties, or any other obligation or liability of the Prepaid Tuition Trust Fund or plan.

"Prepaid Tuition Program" means the Prepaid Higher Education Program and Plan, which was previously established and authorized by this article as reflected in chapter 80, Acts of the Legislature, Regular Session, 1997, and which was closed in 2021.

"Program" means the West Virginia College Savings Program established pursuant to this article and as defined in §18-30-4(a) of this code.

"Qualified education expenses" means expenses treated as "qualified higher education expenses" under 26 U.S.C. § 529.

"Savings plan" means the plan that allows account distributions for qualified higher educational expenses and tuition at private or religious primary, middle, and secondary schools.

"Savings plan account" means an account established by an account owner pursuant to this article, in order for the beneficiary to apply distributions toward qualified higher education expenses and tuition expenses at eligible educational institutions.

"Savings plan contract" means a contract entered into by the board or its agent, if any, and an account owner establishing a savings plan account.

"Treasurer" means the West Virginia State Treasurer.

"Tuition" means the quarter, semester, or term charges imposed by an eligible educational institution and all mandatory fees required as a condition of enrollment by all students for full-time attendance.

ARTICLE 30A. WEST VIRGINIA JUMPSTART sAVINGS ACT.

§18-30A-3. Definitions.

1. For the purposes of this article, the following terms shall have the following meanings:

(1) "Account owner" means the person who opens and invests money into a Jumpstart Savings Account, as provided in this article.

"Advanced Career Education" or ACE, shall mean the same as that term is used in §18-25-11 of this code.

(2) "Beneficiary" means the person designated as a beneficiary at the time an account is established, or the individual designated as the beneficiary when the beneficiary is changed.

(3) The "board" means the Board of Trustees of the West Virginia College and Jumpstart Savings Programs created in §18‑30‑4 of this code.

(4) "Contribution" means any amount of money deposited into a Jumpstart Savings Account according to the procedures established and required by the board or the Treasurer.

(5) "Deduction" as used in this article has the same meaning as when used in a comparable context in the laws of the United States relating to income taxes, unless a different meaning is clearly required. Deduction means and refers to a deduction allowable under the federal income tax code for the purpose of determining federal taxable income or federal adjusted gross income, unless text clearly indicates otherwise.

(6) "Distributee" has the same meaning provided in §11‑21‑12m of this code.

(7) "Distribution" means any disbursement from an account.

(8) The term "family member", as used to describe a person’s relationship to a designated beneficiary, includes any of the following:

(A) The spouse of the beneficiary;

(B) A child of the beneficiary or a descendant of the beneficiary’s child;

(C) A brother, sister, stepbrother, or stepsister of the beneficiary;

(D) The father or mother of the beneficiary, or an ancestor of either;

(E) A first cousin of the beneficiary;

(F) A stepfather or stepmother of the beneficiary;

(G) A son or daughter of a brother or sister of the beneficiary;

(H) A brother or sister of the father or mother of the beneficiary;

(I) A son‑in‑law, daughter‑in‑law, father‑in‑law, mother‑in‑law, brother‑in‑law, or sister‑in‑law of the beneficiary; or

(J) The spouse of any person described in paragraphs (B) through (I) of this subdivision.

(K) Any term set forth in this subdivision means and includes such term as established through a lawful adoption, including, but not limited to, adoptions of a child or children, or other natural person, by a natural person or natural persons who are not the father, mother, or stepparent of the child or person.

(9) "Labor organization" means any organization, agency, association, union, or employee representation committee of any kind that exists, in whole or in part, to assist employees in negotiating with employers concerning grievances, labor disputes, wages, rates of pay, or other terms or conditions of employment.

(10) The "program" refers to the Jumpstart Savings Program established by this article.

(11) "Qualified expense" means an account distribution, or any amount thereof, expended by an account beneficiary in the taxable year of receipt of the distribution or the next succeeding taxable year that:

(A) Is allowable as a federal personal income tax deduction pursuant to 26 U.S.C. § 162, as an ordinary and necessary business expense, and is incurred in carrying on a qualifying profession;

(B) Is allowable as a federal personal income tax deduction pursuant to 26 U.S.C. § 195(b), as a business start-up expenditure, and is incurred in carrying on a qualifying profession; or

(C) Is expended for goods, services, or other expenses that qualify for a federal personal income tax deduction for depreciation or amortization over time, pursuant to a provision of 26 U.S.C. § 161-199a and that are used to carry on a qualifying profession; or

(D) Is not allowable as any one of the federal personal income tax deductions described in paragraphs (A) through (C) of this subdivision and is expended for:

(i) The purchase of tools, equipment, or supplies used exclusively in a qualifying profession;

(ii) Costs to establish a business in this state to practice a qualifying profession; or

(iii) Fees for required certification or licensure in a qualifying profession: *Provided,* That in no event shall any dues, fees, subscriptions, or any other payments to a labor organization constitute qualified expenses for the purposes of this article; and

(iv) Is not reimbursed by the taxpayer’s employer.

(12) "Qualifying profession" means an occupation, profession, or trade for which the designated beneficiary is required to:

(A) Complete an apprenticeship program registered and certified with the United States Department of Labor, as provided in 29 U.S.C. § 50;

(B) Complete an apprenticeship program required by any provision of this code or a legislative rule promulgated pursuant to this code;

(C) Earn a license or certification from an Advanced Career Education (ACE) career center; or

(D) Earn an associate degree or certification from a community and technical college or from a school or program, authorized by the West Virginia Council for Community or Technical College Education or a similar agency in another state, to award associates degrees or technical certifications;

(E) Earn a license or certification from a career and technical education or vocational training program at a public secondary school; or

(F) Complete any other apprenticeship or educational program consistent with the purposes of this article, as approved by the board.

(13) ~~(11)~~ The "Treasurer" refers to the West Virginia State Treasurer or his or her designee.

(b) The amendments to this section adopted during the regular session of the Legislature, 2023, are effective January 1, 2023.

§18-30A-10. Opening a Jumpstart Savings Account; deposits.

(a) Beginning on July 1, 2022, a person may open a Jumpstart Savings Account.

(b) To open a Jumpstart Savings Account, the account owner must:

(1) Provide all information required by the Treasurer;

(2) Make a minimum opening deposit, ~~of $25~~ if required by the board; and

(3) Name a single person as the designated beneficiary: *Provided*, That the designated beneficiary may be the account owner himself or herself, or another person: *Provided, however*, That the beneficiary may not be a business, corporation, or enterprise.

(c) The Treasurer will deposit $100 from the ~~Jumpstart Savings Expense Fund~~ College and Jumpstart Savings Administrative Account into a newly opened Jumpstart Savings Account if the following criteria are met:

(1) The designated beneficiary is a resident of West Virginia;

(2) Any minimum deposit required by the board is made to the account within 30 days of the account’s opening; and

~~(2)~~ (3) The account is opened when the designated beneficiary is under 18 years of age; or

~~(3)~~ (4) The account is opened within the 180 days following the date of the designated beneficiary’s enrollment in an apprenticeship, training, or educational program described in ~~§18-30A-11(c)(1)(A)~~ §18-30A-3(a)(12) of this code.

(d) Any person may make a contribution to a Jumpstart Savings Account after the account is opened, subject to applicable state and federal laws.

(e) The Treasurer shall prescribe all forms required to open and make deposits to a Jumpstart Savings Account and make the forms available in a prominent location on the Treasurer’s website.

(f) The board may establish minimum deposits or amounts for accounts to be considered active and may establish procedures to close inactive accounts.

§18-30A-11. Distributions; qualified expenses.

~~(a) A distribution from a Jumpstart Savings Account that was used to pay for qualified expenses as defined in subsection (c) of this section, shall establish entitlement of the distributee to the personal income tax decreasing modification authorized by §11‑21‑12m(b) of this code. and such decreasing modification may be applied to determine West Virginia adjusted gross income of the distributee in the taxable year in which such qualified expenses were paid~~

(a) A distribution from a Jumpstart Savings Account that was used to pay for qualified expenses is not subject to the increasing income tax modification provided in §11‑21‑12m(c) of this code.

(b) A change in the designated beneficiary of a Jumpstart Savings Account is not a distributionfor the purposes of this article or §11‑21‑1 *et seq.* of this code if the new beneficiary is a family member of the prior beneficiary.

~~(c)~~ *~~Qualified expenses. —~~*

~~(1) For the purposes of this article and §11‑21‑12m of this code, expenditures of distributions for the following purposes are qualified expenses:~~

~~(A) The purchase of tools, equipment, or supplies by the beneficiary to be used exclusively in an occupation or profession for which the beneficiary is required to:~~

~~(i) Complete an apprenticeship program registered and certified with the United States Department of Labor, as provided in 29 U.S.C. §50;~~

~~(ii) Complete an apprenticeship program required by any provision of this code or a legislative rule promulgated pursuant to this code;~~

~~(iii) Earn a license or certification from an Advanced Career Education (ACE) career center; or~~

~~(iv) Earn an associate degree or certification from a community and technical college.~~

~~(B) Fees for required certification or licensure for the beneficiary to practice a trade or occupation described in paragraph (A) of this subdivision in this state; and~~

~~(C) Costs incurred by the beneficiary that are necessary to establish a business in this state in which the beneficiary will practice an occupation or profession described in paragraph (A) of this subdivision when the costs are exclusively incurred and paid for the purpose of establishing and operating such business.~~

~~(2) In no event shall any dues, fees, subscriptions, or any other payments to a labor organization constitute qualified expenses for the purposes of this article.~~

(c) Pursuant to the rulemaking authority provided in this article, the board shall promulgate rules specifying the expenditures that constitute qualified expenses, according to §18-30A-3(a)(11)(D) of this code.

§18-30A-13. Reports and account; annual audit.

(a) In addition to any other requirements of this article, the board shall:

(1) Prepare and provide an annual summary of information on the financial condition of the Jumpstart Savings Trust Fund ~~and Expense Fund~~ and statements on the savings program accounts to the respective account owners; and

(2) Prepare, or have prepared, a quarterly report on the status of the program, including the Jumpstart Savings Trust Fund and ~~Expense Fund~~ the College and Jumpstart Savings Administrative Account, and provide a copy of the report to the Joint Committee on Government and Finance: *Provided,* That the report submitted pursuant to §18-30-10 of this code fulfills this subdivision’s requirement concerning the College and Jumpstart Savings Administrative Account.

(b) All accounts administered under the program, including the Jumpstart Savings Trust Fund ~~and Expense Fund~~, are subject to an annual external audit by an accounting firm, selected by the board, of which all members or partners assigned to head the audit are members of the American Institute of Certified Public Accountants. The audit shall comply with the requirements and standards in §5A-2-33 of this code.