



## Bill Analysis

Author: Rodriguez

Sponsor:

Bill Number: AB 2444

Related Bills: See Legislative  
History

Introduced: February 20, 2026

### SUBJECT

Qualified Tuition Program Deduction/Rollover Exclusion

### SUMMARY

This bill would do the following:

#### *Qualified Tuition Program Deduction*

This bill would, under the Personal Income Tax Law (PITL), for taxable years beginning on or after January 1, 2026, allow an above-the-line deduction for monetary contributions made by a qualified taxpayer during the taxable year to one or more accounts established pursuant to the California qualified tuition program on behalf of a beneficiary.

#### *Qualified Tuition Program Rollover Income Exclusion*

This bill would, under the PITL, for taxable years beginning or after January 1, 2026, and before January 1, 2030, would provide modified conformity to the federal treatment to allow specified rollovers from a qualified tuition program to a Roth IRA without being subject to tax or penalty.

### RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

### SUMMARY OF AMENDMENTS

Not applicable.

### REASON FOR THE BILL

The reason for this bill is to encourage greater participation in California's ScholarShare 529 program by aligning state law with recent federal changes and providing a state income tax deduction to help families save for higher education.

**ANALYSIS***Qualified Tuition Program Deduction (Sections 1, 4 and 6)*

This provision would, under the PITL, for taxable years beginning on or after January 1, 2026, allow an above-the-line deduction for monetary contributions made by a qualified taxpayer during the taxable year to one or more accounts established pursuant to the California qualified tuition program on behalf of a beneficiary.

The deduction would be limited to the following:

- For a qualified taxpayer who is head of household, a surviving spouse, or a married couple filing a joint return, \$10,000.
- For a qualified taxpayer other than described above, \$5,000.

The bill would define the following terms:

- 1) "California qualified tuition program" means a qualified tuition program as defined in Internal Revenue Code (IRC) section 529 and as established pursuant to the Golden State ScholarShare Trust Act of the Education Code.
- 2) "Monetary contribution" means cash contributions to the California qualified tuition program, except for the following:
  - A cash contribution to the California qualified tuition program from another qualified tuition program that is not the California qualified tuition program.
  - A cash contribution from the credit of one beneficiary under the California qualified tuition program to the credit of another beneficiary under the California qualified tuition program.
- 3) "Qualified higher education expenses" has the same meaning as that term is defined in Section 529 of the IRC, relating to qualified tuition programs.
- 4) "Qualified taxpayer" means an individual, or a married couple if filing jointly, who, on behalf of a beneficiary, contributes money to a qualified tuition program for which the taxpayer, or spouse if a married couple filing jointly, is the account owner and whose adjusted gross income (AGI) does not exceed the following:
  - For a qualified taxpayer who is a head of household, a surviving spouse, or a married couple filing a joint return, \$150,000.
  - For a qualified taxpayer other than described above, \$75,000.

For each taxable year beginning on or after January 1, 2027, the Franchise Tax Board (FTB) would annually be required to adjust for inflation the preceding taxable year's AGI limits in the same manner as the recomputation of the state income tax brackets.

This provision would require the following related to distributions:

- Distributions in excess of qualified higher educational expenses would be added back to the taxpayer's gross income in the year of the distribution. This is required to the extent that the distribution is attributable to amounts that were allowed as a deduction that reduced the taxpayer's gross income for that taxable year during taxable years beginning on or after January 1, 2026. However, this add-back provision would not apply to any portion of the distribution in excess of qualified education expenses transferred to another California qualified tuition program within 60 days of the distribution.
- For the purposes of IRC section 529(c)(3), relating to distributions, amounts allowed as a deduction under this section would not be treated as an investment in the contract in applying IRC section 72, relating to annuities.

A qualified taxpayer would be required to maintain records that are adequate to substantiate any deduction allowed, and would be required, upon request, to provide such records to the FTB.

The FTB would be allowed to adopt necessary or appropriate regulations in order to implement this bill. In addition, the Administrative Procedure Act of the Government Code would not apply to any standard, criteria, procedures, determinations, rules, notices, or guidelines issued by the FTB in relation to this bill.

The FTB would be required to provide information on the amount of deductions allowed and aggregate income information for taxpayers allowed those deductions, for the taxable year, to the Scholarshare Investment Board, upon request. The Scholarshare Investment Board would be required to collect this information from the FTB by April 1 of the second calendar year following the taxable year the deduction is reported. The bill would provide FTB's disclosure of this information to the Scholarshare Investment Board would be treated as an exception to the general prohibition against disclosure of confidential taxpayer information.

#### *Qualified Tuition Program Rollover Income Exclusion (Sections 2, 3, 5)*

This provision would, under the PITL, for taxable years beginning or after January 1, 2026, and before January 1, 2030, provide modified conformity to the federal treatment to allow specified rollovers from a qualified tuition program to a Roth IRA without being subject to tax or penalty.

For purposes of complying with RTC section 41, this bill would provide that the specific goal of the exclusion is to encourage additional savings for educational expenses and to conform to federal law to bring tax relief and ease return preparation for taxpayers who transfer funds pursuant to these amendments. With respect to the exclusion in this bill, the Legislature finds there is no available data to collect or report.

*Effective/Operative Date*

As a tax levy, this bill would be effective immediately upon enactment. Sections 1, 4, and 6 of the bill would be specifically operative for taxable years beginning on or after January 1, 2026. Sections 2 and 3 of the bill would be specifically operative for taxable years beginning on or after January 1, 2026, and before January 1, 2030.

*Federal/State Law*

IRC section 529 (Section 529 Plan) provides tax-exempt status to qualified tuition programs.

Contributions to a qualified tuition program must be made in cash. The Section 529 Plan does not impose a specific dollar limit on the amount of contributions, account balances, or prepaid tuition benefits relating to a qualified tuition account; however, the program is required to have adequate safeguards to prevent contributions in excess of amounts necessary to provide for the beneficiary's qualified higher education expenses. Contributions are not tax deductible for federal income tax purposes, but amounts earned in the account (i.e. interest) accumulate on a tax-free basis.

Distributions from a qualified tuition program are excludable from federal tax if used for the beneficiary's qualified higher education expenses. If a distribution from a qualified tuition program exceeds the qualified higher education expenses incurred for the beneficiary, the portion of the excess that is treated as earnings is generally subject to income tax and an additional 10 percent tax. Amounts in a qualified tuition program may be rolled over to another qualified tuition program for the same beneficiary or for a member of the family of that beneficiary.

Lastly, the Federal SECURE 2.0 Act of 2022 (P.L. 117-328) provides that 529 plans, maintained for at least 15 years, may be distributed to a Roth IRA without a tax or penalty. The rollover must be paid through a direct trustee-to-trustee transfer to a Roth IRA maintained for the benefit of the beneficiary. The rollover amount for a year cannot be more than the Roth IRA annual contributions limit, and all such rollovers for the individual's lifetime cannot exceed \$35,000. The distribution cannot exceed the aggregate amount contributed to the program (and earnings attributed to the amount contributed) before the 5-year period ending on the date of the distribution. California conforms, with modifications, to Section 529 Plans as of the "specified date" of January 1, 2025, as they relate to tax-exempt qualified tuition programs. California modifies the additional 10 percent tax on excess distributions to instead be an additional tax of 2.5 percent for state purposes. Similar to federal law, state law provides that contributions made to a qualified tuition program are not deductible. California does not conform to the Federal SECURE 2.0 Act of 2022 (P.L. 117-328) provision allowing 529 plan distributions to a Roth IRA without a tax or penalty.

Existing federal and state laws allow for the deduction of certain expenses, from gross income, when calculating AGI, such as moving expenses and interest on education loans, certain ordinary and necessary trade and business expenses, losses from the sale or exchange of certain property, contributions for pension, profit-sharing and annuity plans of self-employed individuals, and retirement savings. Thus, all taxpayers with these types of expenses receive the benefit of the deduction, regardless of whether the taxpayer itemizes deductions or uses the standard deduction. These are known as above-the-line deductions.

#### *Implementation Considerations*

FTB has identified the following considerations and is available to work with the author's office to resolve these and other considerations that may be identified.

If requested, this bill could require the FTB to provide confidential taxpayer information to the Scholarshare Investment Board. However, the bill does not prohibit the Scholarshare Investment Board from further disclosure of confidential taxpayer information. An appropriate disclosure restriction should be added to apply to the Scholarshare Investment Board.

#### *Technical Considerations*

This bill would grant the FTB the authority to prescribe rules or regulations, which are already provided under existing law. The author may wish to remove Section 17206.2(g) of the bill.

For consistency within the RTC and to centralize authority for disclosure of confidential information to the Scholarshare Investment Board, the sentence, "The disclosure provisions of this clause shall be treated as an exception to Section 19542." can be removed from Section 17206.2(h)(2)(A) and replaced with language in Article 2 of Chapter 7 of Part 10.2 of the RTC to allow the sharing of specific information regarding deductions allowed, similar to RTC section 19548.3.

#### *Policy Considerations*

This bill, for the qualified tuition program deduction, does not provide a sunset date, which would generally allow periodic review of the effectiveness of the tax law change. If this is contrary to the author's intent, the author may wish to amend the bill.

### **LEGISLATIVE HISTORY**

SB 529 (Choi, et al., 2025/2026), substantially similar to this bill, would have allowed a qualified taxpayer a deduction from gross income for contributions made to a California qualified tuition program. SB 529 did not pass out of the Assembly by the constitutional deadline.

AB 91 (Burke, et al., Chapter 39, Statutes of 2019) made numerous changes to the PITL, including conformity to several provisions relating to qualified tuition program accounts and distributions, while specifically not conforming to the addition of qualified tuition program distributions for elementary and secondary education with a maximum distribution amount of \$10,000, to the definition of qualified higher education expenses.

AB 1026 (Ta, 2023/2024), similar to this bill, would have allowed an above-the-line deduction of up to \$1,000 or \$2,000, as applicable, for contributions made to a qualified tuition program. AB 1026 did not pass out of the Assembly by the constitutional deadline.

AB 1589 (Connolly, 2023/2024), similar to this bill, would have allowed a qualified taxpayer a deduction from gross income for contributions made to a California qualified tuition program. AB 1589 did not pass out of the Assembly by the constitutional deadline.

SB 1374 (Borgeas, 2021/2022), substantially similar to this bill, would have allowed an above-the-line deduction for contributions made to a qualified tuition program. SB 1374 was vetoed by the governor whose veto message stated in part: "While I appreciate the intent to incentivize Californians to save for higher education expenses, ScholarShare already has significant tax advantages. An additional tax deduction would largely benefit higher-income families that have tax liability and enough disposable income to contribute."

## **PROGRAM BACKGROUND**

None noted.

## **OTHER STATES' INFORMATION**

None noted.

## **FISCAL IMPACT**

This bill would impact the FTB's systems, resulting in programming, processing, forms, and form instruction revisions as well as the need for taxpayer outreach. However, FTB's costs to implement this bill have yet to be determined. As the bill continues to move through the legislative process, costs will be determined.

**ECONOMIC IMPACT**

*Revenue Estimate*

This bill has the following two provisions that have revenue impacts:

***Qualified Tuition Program Deduction***

This provision would result in the following revenue loss:

Estimated Revenue Impact of AB 2444, Qualified Tuition Program Deduction (Sections 1, 4 and 6), as Introduced February 20, 2026  
Assumed Enactment after June 30, 2026

(\$ in Millions)

<b>Fiscal Year</b>	<b>Revenue</b>
2026-2027	-\$11
2027-2028	-\$7.5
2028-2029	-\$8.3

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

*Revenue Discussion*

Based on data from the College Savings Plan Network, there were 490,000 California ScholarShare College Savings Plan accounts in 2025 and is expected to increase to approximately 530,000 accounts in 2026.

Using data from the FTB, it is estimated 53 percent, or 260,000, of these accounts would be held by taxpayers that meet the specified income requirements. Based on 529 college savings account research, it is estimated that approximately 95 percent, or 245,000, of these accounts could be claimed against only one beneficiary in the 2026 taxable year.

Based on Financial Services data, it is estimated 160,000 account holders would contribute approximately \$270 million in the 2026 taxable year. It is expected most contributions would not exceed the contribution cap for their respective filing status.

It is anticipated approximately 95 percent, or \$250 million, of contributions would be made by taxpayers with sufficient income to offset the deduction on the return. Applying an average tax rate of 3 percent would result in an estimated revenue loss of \$7 million in the 2026 taxable year.

The tax year estimates are converted to fiscal year estimates and then rounded to arrive at the amounts reflected in the above table.

***Qualified Tuition Program Rollover Income Exclusion***

This provision would result in the following revenue loss:

Estimated Revenue Impact of AB 2444, Qualified Tuition Program Rollover Exclusion (Sections 2, 3, 5), as Introduced February 20, 2026  
Assumed Enactment after June 30, 2026

(\$ in Millions)

<b>Fiscal Year</b>	<b>Revenue</b>
2026-2027	-\$17
2027-2028	-\$10
2028-2029	-\$11

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

*Revenue Discussion*

This estimate is based on a proration of the Joint Committee on Taxation (JCT) federal estimate for the inclusion of special distribution rules from long-term qualified tuition programs to Roth IRAs. In December 2022, the JCT estimated the federal revenue impact of the exclusion to be a loss of \$215 million in federal fiscal year 2026-27. The corresponding loss to California is estimated to be \$11 million for the 2026 taxable year.

The tax year estimates are converted to fiscal year estimates and then rounded to arrive at the amounts reflected in the above table.

**LEGAL IMPACT**

None noted.

**EQUITY IMPACT**

None noted.

**APPOINTMENTS**

None noted.

**SUPPORT/OPPOSITION**

To be determined.

**ARGUMENTS**

To be determined.

**LEGISLATIVE CONTACT**

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