The Contemporary Tax Journal

Volume 12
Issue 2 *The Contemporary Tax Journal Volume 12, No. 2 – Winter 2023*

Article 5

12-21-2023

H.R. 1477 (118th Congress) - Freedom to Invest in Tomorrow's Workforce Act

Eric Varaghese
San Jose State University

Sereyrod (Rod) Chea
San Jose State University

Tax Policy Analysis

H.R. 1477 (118th Congress) - Freedom to Invest in Tomorrow's Workforce Act

By: Eric Varaghese and Sereyrod (Rod) Chea, MST Students

Introduction

Introduced in the House of Representatives on March 8, 2023, the Freedom To Invest in Tomorrow's Workforce Act aims to expand the allowable use of funds in qualified tuition programs, commonly known as 529 accounts, to cover expenses associated with obtaining or maintaining recognized postsecondary credentials. This bill seeks to amend the Internal Revenue Code of 1986 to redefine qualified higher education expenses for the purpose of 529 accounts.

Sponsored by Representatives Wittman and Spanberger, this bill has been referred to the Committee on Ways and Means for further consideration. Its official title emphasizes the freedom to invest in the future workforce by supporting individuals pursuing recognized postsecondary credentials. Section 2 of the bill introduces the provision to treat certain career training and credentialing expenses as qualified higher education expenses eligible for 529 account funds. It specifies that qualified higher education expenses now include tuition, fees, books, supplies, and equipment required for enrollment or attendance in a recognized postsecondary credential program. Additionally, fees required to obtain or maintain a recognized postsecondary credential and fees for testing and other credential-related requirements would also be covered.

The bill defines a "recognized postsecondary credential program" as a program that leads to a recognized postsecondary credential listed under the Workforce Innovation and Opportunity Act or meets the educational prerequisites necessary to take an examination administered by a reputable organization that grants credentials in a particular occupation. It appears that an example of such a credential would be a CPA license.

The Freedom To Invest in Tomorrow's Workforce Act aims to provide individuals pursuing recognized postsecondary credentials with greater financial flexibility and support. By expanding the allowable expenses within 529 accounts, this bill recognizes the value of career training and credentialing programs in preparing individuals for the workforce.[1]

[1] "H.R. 1477 (118th Congress) - Freedom To Invest in Tomorrow's Workforce Act.". March 8, 2023, https://www.govinfo.gov/content/pkg/BILLS-118hr1477ih/pdf/BILLS-118hr1477ih.pdf>, July 17, 2023.

The table below provides an analysis of the proposed Freedom to Invest in Tomorrow's Workforce Act using the AICPA 12 guiding principles of good tax policy.[2]

Criteria	Does the proposal satisfy the criteria? (explain)	+/-
Equity and Fairness – Are similarly situated taxpayers taxed similarly? Also consider any different effects based on an individual's income level and where they live.	H.R. 1477 aims to expand access to recognized postsecondary credentials by allowing certain expenses to be treated as qualified higher education expenses for 529 accounts. While it promotes equity by affording more individuals the opportunity to invest in their professional growth, it is crucial to recognize that certain individuals from lower-income households might lack the funds to establish a 529 account. These individuals could also encounter barriers when attempting to access high-quality training and credentialing programs, despite the broadening of 529 account funds. A key aim of this bill is to encourage individuals to set up 529 accounts with reduced apprehension about potential non-qualified usage that could lead to the forfeiture of tax benefits. Nevertheless, disparities in the availability and quality of recognized postsecondary credential programs might persist across different income groups.	+/-
Certainty – Does the rule clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined?	The proposal primarily addresses the qualified higher education expenses that would be eligible for 529 account funds, such as tuition, fees, books, supplies, equipment, and fees related to obtaining or maintaining recognized postsecondary credentials. Notably, the proposal does not outline specific tax implications or the procedure for tax collection linked to these qualified expenses within 529 accounts. However, the existing rules and information surrounding 529 accounts clearly delineate the timing, method, and amount of taxes to be paid. The proposal might not be entirely clear to the public, especially concerning aspects like the Workforce Innovation and Opportunity Act and the nature of recognized credentials. Therefore, it becomes essential for Congress to require the IRS to issue comprehensive guidance that specifies the exact categories of credentials and educational endeavors encompassed by this bill. This action would play	+

[2] Guiding principles of good tax policy: A framework for evaluating tax proposals; https://us.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/tax-policy-concept-statement-no-1-global.pdf.

	a pivotal role in enhancing clarity and fostering better understanding among stakeholders.	
Convenience of payment – is the tax due at a time that is convenient for the payor?	The proposal does not directly address the convenience of payment aspect, as it focuses on the eligibility of expenses rather than the timing and manner of tax payment. However, the bill addresses the mentioned factors and provides a user-friendly tax payment structure that aligns with educational expenses. Taxpayers will have less concern of taxes later as there would be more uses for funds in a 529 plan.	+
Effective Tax Administration – Are the costs to collect the tax at a minimum level for both the government and taxpayers? Also consider the time needed to implement this tax or change.	The proposal may lead to increased complexity in tax administration due to the introduction of new eligibility criteria and coordination between educational institutions, credentialing programs, and the IRS. The drafters should consider proper implementation and efficient tax administration processes to minimize costs and administrative burdens.	-
Information Security – Will taxpayer information be protected from both unintended and improper disclosure?	The proposal does not explicitly address information security. However, to ensure compliance with data protection regulations, robust measures should be in place to safeguard taxpayer information from unintended and improper disclosure. Section 529 plans are generally managed by financial institutions, and they must adhere to various federal and state regulations to safeguard the personal and financial data of account holders. Further, the IRS has requirements in place to ensure the security of taxpayer information regarding 529 accounts.	N/A
Simplicity - can taxpayers understand the rules and comply with them correctly and in a cost-efficient manner?	The proposal introduces specific criteria for recognizing postsecondary credentials as qualified expenses for 529 accounts. While the proposal adds complexity on how to use 529 funds and understand what is covered, 529 accounts are designed with simplicity in mind to help taxpayers understand the rules and comply with them correctly. Also, clear guidance and educational resources can help taxpayers understand and comply with the rules.	+/-
Neutrality - The effect of the tax law on a	By expanding the use of 529 accounts for recognized postsecondary credentials, this proposal may influence	+

taxpayer's decisions as to how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum.	taxpayers' decisions regarding education and training. Section 529 accounts are specifically designed to encourage saving for education expenses. The tax law does not encourage or discourage certain types of educational decisions, such as pursuing recognized postsecondary credentials over other educational options. By broadening the scope of 529 accounts to encompass recognized postsecondary credentials, the treatment of various educational expenses becomes uniform, extending its coverage to potentially include non-college learning endeavors as well.	
Economic growth and efficiency – will the tax unduly impede or reduce the productive capacity of the economy?	By expanding the allowable use of funds in 529 accounts to cover expenses related to obtaining or maintaining recognized postsecondary credentials, the proposed tax changes aim to encourage individuals to invest in education and workforce development. This could potentially enhance the overall skill level of the labor force and wages, contributing to improved economic productivity and growth.	+
Transparency and Visibility – Will taxpayers know that the tax exists and how and when it is imposed upon them and others?	To meet the principle of transparency and visibility, taxpayers should be informed about the specific modifications to 529 accounts, the intended benefits, and the eligibility criteria for utilizing the funds for recognized postsecondary credentials. The tax law related to 529 accounts and the proposal is drafted in a clear and understandable manner to avoid confusion and misinterpretation. Information regarding the changes to 529 accounts are easily accessible to taxpayers through official government websites and publications which would most likely be updated to address the changes in H.R. 1477 if enacted.	+
Minimum tax gap – is the likelihood of intentional and unintentional non-compliance likely to be low? Is there any way people may intentionally or unintentionally avoid or evade this tax or rule?	The proposed changes to 529 account aim to promote education and workforce development, there could still be potential for intentional non-compliance like misuse of funds and fraudulent claims. Unintentional non-compliance may arise due to confusion or lack of awareness about the specific rules and eligibility criteria for using 529 account funds for recognized postsecondary credentials like the complexity of the eligibility criteria or even administrative errors. But measures can and are put in place to mitigate the likelihood of noncompliance.	+/-

Accountability to taxpayers – Do taxpayers have access to information on tax laws and their development, modification and purpose; is the information visible?	The proposal introduces changes to tax laws, and taxpayers should have access to information regarding these modifications, their development, and purpose. Ensuring that information is visible and accessible enhances accountability to taxpayers, information regarding the changes to 529 accounts are easily accessible to taxpayers through official government websites and publications. It is important that taxpayers have access to information regarding these modifications and their development. Transparency in the legislative process is key. Typically, information about legislative changes is made available through official government channels, including websites and publications. This ensures that taxpayers can easily access information about the proposed changes, which aligns with the principle of accountability, transparency, and visibility. Also, understanding the intent behind a tax policy change helps taxpayers comprehend the broader goals of the government. In this case, the purpose seems to be promoting investment in education and workforce development by expanding the use of 529 accounts. This intent should be clearly communicated to the public to enhance accountability. Through communication, the proposal should provide a rationale for why expanding 529 accounts to cover recognized postsecondary credential expenses is beneficial for individuals and society. This includes explanations about the importance of workforce development and the role education and credentialing play in achieving this goal. Providing such information ensures that taxpayers are informed about the reasoning behind the change. Further, ensuring that taxpayers have access to information about tax laws, their development, modification, and purpose is crucial for accountability. The proposal should not only be transparent about the changes themselves but also about the broader goals and reasons for these changes. This transparency helps taxpayers understand the impact of the proposed policy and fosters trust in the tax system.	+
Appropriate government revenues	The proposal does not directly address revenue estimation. Expanding the eligibility criteria of 529 account expenses	-

17

– will the government be able to determine how much tax revenue will likely be collected and when?	can have both positive and negative implications for government revenue. This expansion could lead to increased contributions, a decrease in tax evasion, and even potential economic stimulation. However, there's the possibility of diminished taxable income and the potential for misuse, making it challenging to accurately project the exact amount of tax revenue that will be lost. The government might be able to gather information regarding expenditures on CPA review courses, continuing education (CE), and similar activities, although this information might not be exhaustive. Nonetheless, estimating how many individuals will utilize 529 funds for these specific purposes remains uncertain and difficult to predict.	

Tax Analysis Summary

The Freedom to Invest in Tomorrow's Workforce Act (H.R. 1477) presents a promising proposal to expand the usage of 529 accounts for recognized postsecondary credentials and reduce the reasons why some individuals do not want to set them up. By allowing individuals to use these funds for expenses associated with obtaining or maintaining recognized postsecondary credentials, the bill aims to provide greater flexibility and support for individuals pursuing career training and credentialing programs.

The proposed bill is a step in the right direction, as it recognizes the evolving nature of the job market and the importance of equipping individuals with the necessary skills and credentials. It acknowledges that postsecondary credentials, beyond traditional degrees, hold value in today's workforce and should be supported by tax policy.

However, there are areas where improvements could be made to enhance the effectiveness and fairness of the bill. One consideration is to provide clearer guidelines and definitions for recognized postsecondary credentials to ensure consistency and prevent potential misuse or misinterpretation. Additionally, it would be beneficial to establish mechanisms for oversight and evaluation of the programs and institutions offering these credentials to ensure quality and relevance.

Regarding the AICPA's 12 guiding principles of good tax policy, the proposed bill aligns with some of these principles by promoting simplicity, fairness, and economic growth. The government should carefully consider the potential unintended consequences and ensure that the bill does not create disparities or distortions within the education and training landscape.