

LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
FISCAL IMPACT STATEMENT

LS 6722

BILL NUMBER: HB 1241

NOTE PREPARED: Dec 21, 2025

BILL AMENDED:

SUBJECT: Roth IRA Rollover of 529 Account Balance.

FIRST AUTHOR: Rep. Hall

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill designates as a qualified withdrawal for Indiana529 plan (529 plan) purposes a withdrawal of funds from the 529 plan in order to make a contribution to a Roth IRA, pursuant and subject to the limitations of the federal SECURE 2.0 Act. It requires the Indiana Education Savings Authority to coordinate with the Treasurer of State in the administration of contributions to 529 plans.

Effective Date: July 1, 2026; January 1, 2027.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur expenses to put the bill's changes in place. The DOR should be able to make these changes within current resource levels.

Treasurer of State: The bill would increase workload for the Treasurer of State. The bill requires the Treasurer of State to coordinate with the Indiana Education Savings Authority on administration of the Indiana 529 tax credit and credit repayments. The Treasurer of State should be able to perform this within current resource levels.

Explanation of State Revenues: Under the bill, the state would receive less General Fund revenue from recapture of the 529 tax credit. Under current Indiana law, a rollover distribution to a Roth IRA is not a qualified distribution and would be subject to credit recapture. Under the bill, such a rollover would not be subject to the credit recapture beginning in tax year 2027. It is unknown how many taxpayers will roll over money into a Roth IRA from a 529 account.

Credit recaptures for non-qualified distributions from 529 plans equal the lesser of the following:

- 20% of the total amount of non-qualified withdrawals made during the taxable year from the account;
- The sum of all credits claimed on the taxpayer's contributions to the account since 2007 minus the sum of tax credits repaid by the account owner for all prior taxable years since 2008.

Additional Information - Beginning in 2024, Section 126 of the SECURE 2.0 Act of 2022 allows

beneficiaries of 529 accounts to roll over up to \$35,000 (lifetime limit) from their 529 account to a Roth IRA without paying federal taxes or penalties. Rollovers are subject to Roth IRA contribution limits. The 529 account must have been open for more than 15 years, and the rollover amount must have been in the account for five years. Under current Indiana law, such rollovers to a Roth IRA in tax year 2024 or afterwards would not be subject to state income tax. However, they would be subject to credit recapture.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Education Savings Authority; Treasurer of State.

Local Agencies Affected:

Information Sources: Section 126 of the SECURE 2.0 Act of 2022 [P.L. 117-328]. <https://www.congress.gov/117/plaws/publ328/PLAW-117publ328.pdf>; Indiana Department of Revenue. (2024, August). Income Tax Information Bulletin #98. Indiana 529 Education Savings Plan Credit. <https://www.in.gov/dor/files/ib98.pdf>

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