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INCOME TAX TREATMENT OF EDUCATION SAVINGS ACCOUNTS

House Bill 5653

Sponsor: Rep. Gary Woronchak

House Bill 5654

Sponsor: Rep. Scott Shackleton

Committee: Tax Policy

Complete to 5-11-00

A SUMMARY OF HOUSE BILLS 5653 AND 5654 AS INTRODUCED 4-18-00

House Bill 5653 would amend the Income Tax Act (MCL 206.30) to allow a taxpayer in calculating taxable income to deduct contributions made to an education savings account, not to exceed \$5,000 for a single return, or \$10,000 for a joint return, per tax year. (This would apply to contributions made after October 1, 2000.) House Bill 5654 would amend the Income Tax Act (206.30f) to allow a deduction from taxable income for interest earned on deductible contributions to an education savings account, and also to allow a deduction for a qualified withdrawal from such an account to pay the qualified higher education expenses of the designated beneficiary of the account. The bill also would require that money withdrawn from an account and interest earned on that amount be added to taxable income if the withdrawal was not a qualified withdrawal. The bills apply to tax years beginning after December 31, 1999.

The bills are tie-barred to Senate Bill 599, which would create the Michigan Education Savings Program Act and provide for the establishment of education savings accounts to be used in paying qualified higher education expenses. Under that bill, qualified higher education expenses would include tuition, fees, books, supplies, and required equipment, and could include reasonable costs for room and board. (See the analysis of Senate Bill 599 by the Senate Fiscal Agency dated 4-24-00.)

The term “qualified withdrawal” is defined in Senate Bill 599 and would apply, generally speaking, to a withdrawal to pay for the qualified higher education expenses of a designated beneficiary. (The term would also apply to some other cases, such as death of the beneficiary, the awarding of a full scholarship, etc.) An account owner could withdraw all or part of the balance of an account on 60 days’ notice or a shorter period as authorized by a savings program agreement. A distribution that was not a qualified withdrawal would also be subject to a penalty of 10 percent of the distribution, to be paid to the state’s General Fund (although the penalty could be increased or decreased by the state treasurer and the program manager, based on federal requirements).

House Bills 5653 and 5654 (5-11-00)

[Senate Bill 599, as passed by the Senate, would allow a person to establish one or more education savings accounts for one or more designated beneficiaries. The total contributions that could be made to all of the accounts naming any one individual as beneficiary would be \$125,000. The minimum initial deposit and minimum contributions could not be greater than \$25 for a cash contribution or \$15 per pay period for a payroll deduction plan. Any individual could make contributions to an account. Money in the accounts would be invested by a program manager selected by the Department of Treasury; the manager could charge a fee of up to 1 percent of the average daily net assets of the program. The person who established an account would be able to select from different investment strategies, but only at the time the initial contribution was made to establish the account. The department and the program manager would enter into a contract that would, among other things, determine who had responsibility for such duties as developing and implementing the education savings program and developing marketing plans and promotional material. The state treasurer would be responsible for the ongoing supervision of the management contract, in consultation with the board of directors of the Michigan Education Trust.]

Analyst: C. Couch

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.