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SFA BILL ANALYSIS

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House Bill 5653 (Substitute H-2 as reported with amendment)
House Bill 5654 (as reported without amendment)
Sponsor: Representative Gary Woronchak
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

The bills would amend the Income Tax Act to allow a taxpayer to deduct from taxable income contributions to education savings accounts; the interest earned on the contributions; certain distributions from the accounts to beneficiaries; and distributions from an individual retirement account (IRA) that were used to pay certain higher education expenses. Both of the bills are tie-barred to Senate Bill 599, which would create the "Michigan Education Savings Program Act" to allow individuals to contribute money to education savings accounts, to be used to pay for qualified higher education expenses.

House Bill 5653 (H-2) provides that for tax years beginning after 1999, a taxpayer could deduct, to the extent not deducted in determining Federal adjusted gross income (AGI), both of the following: the total of all contributions made on and after October 1, 2000, by the taxpayer in the tax year to education savings accounts pursuant to the Michigan Education Savings Program Act, not to exceed $5,000 for a single return or $10,000 for a joint return, per tax year; and interest earned in the tax year on contributions to the taxpayer's education savings accounts, and qualified withdrawals from an account to a designated beneficiary.

A taxpayer would have to add, to the extent not included in Federal AGI, the amount of money withdrawn by the taxpayer in the tax year from education savings accounts if the withdrawal were not a "qualified withdrawal" as provided in the Michigan Education Savings Program Act.
Further, House Bill 5653 (H-2) would allow a taxpayer to deduct, to the extent included in Federal AGI, the amount of a distribution from IRAs (that qualify under the Internal Revenue Code) if the distribution were used to pay qualified higher education expenses.

House Bill 5654 provides that for tax years beginning after 1999, a taxpayer could deduct from taxable income, to the extent not deducted in determining Federal AGI, interest earned in a tax year on contributions to the taxpayer's education savings accounts if the contributions were deductible as provided under House Bill 5653 (H-2); and, to the extent included in AGI, distributions that were qualified withdrawals from an education savings account to the designated beneficiary of the account.

MCL 206.30 (H.B. 5653) Legislative Analyst: G. Towne
Proposed MCL 206.30f (H.B. 5654)

FISCAL IMPACT

These bills would reduce income tax revenue an estimated $4.6 million in FY 2000-01, and $5.9 million in FY 2001-02. This loss in revenue would reduce General Fund/General Purpose revenue an estimated $4.4 million in FY 2000-01 and $5.1 million in FY 2001-02, and School Aid Fund revenue would be reduced $0.2 million in FY 2000-01 and $0.3 million in FY 2001-02.

Date Completed: 5-24-00 Fiscal Analyst: J. Wortley