

**AMENDMENTS TO EDUCATION  
SAVINGS PROGRAM ACT**

**House Bill 5317**  
**Sponsor: Rep. Gene DeRossett**  
**Committee: Commerce**

**Complete to 11-2-01**

**A SUMMARY OF HOUSE BILL 5317 AS INTRODUCED 10-23-01**

Public Act 161 of 2000 (Senate Bill 599) created the Michigan Education Savings Program Act, under which individuals can contribute money to special accounts with the proceeds to be used to pay higher education expenses, including tuition, fees, books, supplies, and, in some cases, room and board. A person can establish one or more of these accounts for one or more designated beneficiaries. Two related acts, Public Acts 162 and 163 of 2000 (House Bills 5653 and 5654) allowed contributions to education savings accounts to be deducted from income in determining the state income tax; allowed a deduction for interest earned on such accounts; and allowed a deduction for qualified withdrawals used to pay higher education expenses.

When a withdrawal is made that is not a qualified withdrawal, the money withdrawn and any interest earned on that amount is added to taxable income. Further, a distribution that is not a qualified withdrawal is also subject to a ten percent penalty. The act says, "If a distribution that is not a qualified withdrawal is made, the program manager shall withhold an amount equal to 10 percent of the distribution amount as a penalty . . . for deposit into the [state's] general fund". House Bill 5317 would rewrite this provision to specify that the amount withheld would be equal to ten percent of the accumulated earnings attributable to the distribution.

The bill also would amend the definition of "account owner". Currently, the act defines the term to refer to "the individual who enters into a Michigan education savings program agreement and establishes an education savings account". House Bill 5317 would make the definition also apply to 1) an entity exempt from taxation under Section 501 (c) (3) of the federal Internal Revenue Code; and 2) a trust.

Analyst: C. Couch

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