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BILL ANALYSIS

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House Bill 5138 (as reported without amendment)
House Bill 5139 (Substitute S-2 without amendment)
Sponsor: Representative Tim Melton
House Committee: Education
Senate Committee: Finance

CONTENT

House Bill 5138 would amend the Michigan Education Savings Program Act to do the following:

-- Allow the program to consist of one or more savings plans providing different investment strategies and allowing account distributions.
-- Authorize the State Treasurer to use the program revenue to maintain or enhance the State's qualified tuition programs.
-- Include as a "qualified withdrawal" a withdrawal made because a beneficiary attended a service academy.

The Michigan Education Savings Program allows individuals to open one or more education savings accounts to save money for the qualified higher education expenses of one or more designated beneficiaries. The contributions to and interest earned on an educations savings account are exempt from taxation as provided under the Income Tax Act.

Under the bill, the program could consist of one or more savings plans. "Savings plan" or "plans" would mean a plan that provides different investment strategies and allows account distributions for qualified higher education expenses.

House Bill 5139 (S-2) would amend the Income Tax Act to do the following:

-- Specify that a deduction based on contributions to education savings accounts would be calculated on a per education savings account basis
-- State that the amount calculated for each education savings account could not be less than zero.
-- Adjust the maximum deduction allowed for certain retirement or pension benefits payable for life to a senior citizen.
-- Adjust the maximum deduction that a senior citizen may take for interest, dividends, and capital gains received in a tax year.

MCL 390.1472 (H.B. 5138)
206.30 (H.B. 5139)

Legislative Analyst: Craig Laurie

FISCAL IMPACT

A reasonable estimate of the fiscal impact of the bills is not possible at this time because there are many unknown factors. There is no way to know at this time how many people would participate in a new type of qualified tuition program or how much the participants would contribute to the savings program. Participation in the current Michigan Education

Savings Program will reduce income tax revenue an estimated $14.2 million in FY 2007-08. Any loss in income tax revenue through additional contributions to a qualified tuition program would reduce General Fund and School Aid Fund revenue. The bills would not have a direct impact on local units of government.

The changes proposed by House Bill 5139 (S-2) concerning the income tax pension deduction and the interest, dividend, and capital gains deduction for senior citizens would restore the annual indexing of the level of these deductions to the percentage change in the U.S. Consumer Price Index. These deductions have been indexed for several years, but indexing provisions were inadvertently omitted from the Income Tax Act when it was amended by Public Act 94 of 2007 and the amounts stated in the statute were not updated. Therefore, these proposed changes would have no fiscal impact.

Date Completed: 12-13-07 Fiscal Analyst: Jay Wortley

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