Legislative Analysis

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REVISE MICHIGAN EDUCATION SAVINGS FUNDS

House Bill 4202
Sponsor: Rep. Steven Lindberg
Committee: Education

Complete to 10-21-09

A SUMMARY OF HOUSE BILL 4202 AS INTRODUCED 2-5-09

The bill would amend the Michigan Education Savings Program Act to allow governmental entities and corporations to be account owners, to allow scholarship programs to defer naming beneficiaries, and to add electronic funds transfer as a method of disbursing Michigan Education Savings Funds.

Currently under the law, an "account owner" is defined to mean either

(1) the individual who enters into a Michigan Education Savings Program agreement and establishes an Education Savings Account. The account owner may also be the designated beneficiary of the account; or

(2) an entity exempt from taxation under Section 501(c)(3) of the Internal Revenue Code or an estate or trust that enters into a Michigan Education Savings Program agreement and establishes an Education Savings Account.

House Bill 4202 would expand this second definition of "account owner" to include ***a state or local government agency or instrumentality, or a corporation***, in addition to a nonprofits and estates and trusts.

Under the law, an entity or individual who enters into a Michigan Education Savings Program agreement completes a form that has been prescribed by a program manager and approved by the state treasurer. The law specifies the information that must be included on the form, including a designated beneficiary. House Bill 4202 retains these provisions, but adds that as part of a scholarship program, a state or local government entity, a 501(c)(3) nonprofit, or a corporation, could ***defer naming a designated beneficiary*** consistent with the terms of the applicable MESP agreement.

The law also requires that contributions to accounts be made in cash, by check, by money order, by credit card, or by any similar method as approved by the state treasurer, but shall not be property. House Bill 4202 would eliminate "by money order."

Finally, the law describes how and to whom distributions from an account can be made. Specifically, distributions may be made directly to an eligible education institution; or in the form of a check payable to both the designated beneficiary and the eligible education institution; or in the form of a check payable to the designated beneficiary or account holder. House Bill 4202 would retain these provisions and add a fourth option: ***in the form of an electronic funds transfer to an account specified by the designated beneficiary or account holder***.

MCL 390.1472 and 1477

FISCAL IMPACT:

The fiscal impact of this bill depends on the additional number of accounts that would be set up and the contributions to these accounts. Under current law, contributions to these accounts up to $5,000 for single and $10,000 for joint returns are not subject to the income tax. This bill would reduce income tax revenue, which would affect General Fund/General Purpose and School Aid Fund revenue. This bill would have no direct affect on local units of government.

The Treasury Department would not realize any fiscal impact from the bill.

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