Legislative Analysis

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EDUCATION SAVINGS PROGRAM: MAXIMUM CONTRIBUTIONS FOR A BENEFICIARY

Senate Bill 360 (passed by the Senate as S-1)
Sponsor: Sen. Rebekah Warren
House Committee: Tax Policy
Senate Committee: Finance
Complete to 10-6-15

SUMMARY:

The bill would amend the Michigan Education Savings Program Act increase the maximum permitted account balance for all education savings accounts naming any one individual as the designated beneficiary from $235,000 to $500,000. These plans are often known as 529 College Savings Plans because they are authorized under Section 529 of the federal Internal Revenue Code.

Senate Bill 360 has the same content as House Bill 4541, which has already passed the House.

The Income Tax Act allows contributions to education savings accounts to be deducted from income in determining tax liability; allows a deduction for interest earned on such accounts; and allows a deduction for qualified withdrawals used to pay higher education expenses.

The bill is tie-barred to House Bills 4542-4544, a package of bills that would deal with a new kind of savings plan program to cover disability expenses, and would create the Michigan Achieving a Better Life Experience (ABLE) Program Act. That act and the new ABLE accounts would be modeled on the Education Savings Program Act, and are authorized under a recently enacted Section 529A of the federal Internal Revenue Code. Those House bills have passed both the House and the Senate and will soon be presented to the governor, but because of tie-bars, those bills cannot take effect unless Senate Bill 360 is also enacted.

FISCAL IMPACT:

Although the cap would more than double under the bill, the subtraction from taxable income would remain at $5,000 for a single taxpayer and $10,000 for joint filers. Thus, although an individual could contribute to an MESP for a longer period of time before the overall cap is reached, the amount excluded from tax in any single tax year would remain the same. Therefore, while income tax revenue would be expected to decline, the annual impact would likely not be significant.

Because the subtraction affects gross (pre-refund) income tax revenue, any revenue reduction would impact both the General Fund and School Aid Fund.

BACKGROUND INFORMATION:

Education Savings Program Act

Public Act 161 of 2000 created the Michigan Education Savings Program Act, under which individuals, government entities, and corporations 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 or entity can establish one or more of these accounts for one or more designated beneficiaries. Two related acts, Public Acts 162 and 163 of 2000, allowed contributions to education savings accounts to be deducted from income in determining the state income tax; allow a deduction for interest earned on such accounts; and allow a deduction for qualified withdrawals used to pay higher education expenses. As mentioned above, these plans are called 529 college savings plans because they are authorized under Section 529 of the federal Internal Revenue Code.

As noted, the bill would increase the maximum permitted account balance for all education savings accounts naming any one individual as the designated beneficiary from $235,000 to $500,000. The program must reject a contribution to any account for a designated beneficiary if the total balance of all accounts naming that beneficiary had reached the maximum. An account could continue to accrue earnings if it had reached the maximum and would not, as a result of those earnings, be considered over the maximum.

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