Legislative Analysis

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EDUCATION SAVINGS PROGRAM:
MAXIMUM CONTRIBUTIONS FOR A BENEFICIARY

House Bill 4541 as introduced
Sponsor: Rep. Anthony G. Forlini
Committee: Financial Services
Complete to 5-12-15

SUMMARY:

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.

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 allow 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. These plans are often known as 529 college savings plans because they are authorized under Section 529 of the federal Internal Revenue Code.

The current maximum for total contributions for all of the accounts naming any one individual as the beneficiary is $235,000. <u>House Bill 4541</u> would instead limit the maximum account balance for all accounts naming any one beneficiary to $500,000.

The program would have to 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. For the purposes of determining whether the maximum account balance had been reached, the bill would include in the calculation the amount of payment or payments required from a purchaser on behalf of a qualified beneficiary made under an advance tuition payment contract (i.e., prepaid tuition plan) under the Michigan Education Trust Act, if the designated beneficiary under the savings plan is also the qualified beneficiary under the MET.

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.

FISCAL IMPACT:

House Bill 4541 would increase revenue received from the Program Manager Fee and State Administrative Fee collected by the Program Manager (TIAA-CREF) and the Department of Treasury, respectively. The fees are assessed at an annual rate of 0.05% against all assets under management. Increased Program Manager Fees would cover the administrative costs of the Program Manager. Increased State Administrative Fees would, by statute, be used by the Department of Treasury to cover administrative costs and maintain and enhance the State of Michigan's qualified tuition programs (Michigan Education Trust (MET), Michigan Education Savings Program (MESP), and the Michigan Advisor-sold Program (MAP).

As written, the bill would have a very small negative impact on state income tax collections. While the overall cap on these accounts would be more than doubled by the bill, there are no changes to the amount that can be deducted from adjusted gross income. 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 means the primary fiscal impact of the bill is the foregone revenue resulting from the exemption of interest earned on accounts that exceed $235,000. This amount cannot be estimated in advance, but should be very small; likely less than $2 million annually. This bill would reduce gross income tax revenue, which affects both General Fund/General Purpose and School Aid Fund revenue. This bill would have no direct impact on local units of government.

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