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SFA

BILL ANALYSIS

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House Bill 5653 (Substitute H-2 as passed by the House)
House Bill 5654 (as passed by the House)
Sponsor: Representative Gary Woronchak
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 5-23-00

CONTENT

The bills would amend the Income Tax Act to allow a taxpayer to deduct from taxable income contributions to education savings accounts; the interest earned on the contributions; certain distributions from the accounts to beneficiaries; and distributions from an individual retirement account (IRA) that were used to pay certain higher education expenses. Both of the bills are tie-barred to Senate Bill 599, which would create the "Michigan Education Savings Program Act" to allow individuals to contribute money to education savings accounts, to be used to pay for qualified higher education expenses.

House Bill 5653 (H-2)

The bill provides that for tax years beginning after December 31, 1999, a taxpayer could deduct, to the extent not deducted in determining Federal adjusted gross income (AGI), both of the following:

- The total of all contributions made on and after October 1, 2000, by the taxpayer in the tax year to education savings accounts pursuant to the Michigan Education Savings Program Act, not to exceed \$5,000 for a single return or \$10,000 for a joint return, per tax year.
- Interest earned in the tax year on contributions to the taxpayer's education savings accounts.

The bill would require a taxpayer to add, to the extent not included in Federal AGI, the amount of money withdrawn by the taxpayer in the tax year from education savings accounts if the withdrawal were not a "qualified withdrawal" as provided in the Michigan Education Savings Program Act. As proposed in Senate Bill 599, a "qualified withdrawal" would be a distribution that was not subject to penalty or taxation under the bill or the Income Tax Act, and that was any of the following:

- A withdrawal from an account to pay "qualified higher education expenses" incurred after the account of the designated beneficiary was established.
- A withdrawal made as the result of the death or disability of the designated beneficiary.
- A withdrawal made because a beneficiary received a scholarship that paid for all of his or her qualified higher education expenses.
- A transfer of funds due to termination of the management contract as provided in the bill.
- A transfer of funds due to a change of beneficiary.

Under Senate Bill 599, "qualified higher education expenses" would be those expenses as defined in Section 529 of the Internal Revenue Code. (Section 529 states that "qualified higher education expenses" means tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a designated beneficiary at an eligible educational institution. The term can include reasonable costs for room and board, incurred by the designated beneficiary while attending the institution, as determined under the qualified state tuition program, and as limited under the Code.)

Further, House Bill 5653 (H-2) would allow a taxpayer to deduct, to the extent included in Federal AGI, the amount of a distribution from IRAs (that qualify under the Internal Revenue Code) if the distribution were

used to pay qualified higher education expenses.

House Bill 5654

The bill provides that for tax years beginning after December 31, 1999, a taxpayer could deduct from taxable income, to the extent not deducted in determining Federal AGI, interest earned in a tax year on contributions to the taxpayer's education savings accounts if the contributions were deductible as provided under House Bill 5653 (H-2); and, to the extent included in AGI, distributions that were qualified withdrawals from an education savings account to the designated beneficiary of the account.

MCL 206.30 (H.B. 5653)
Proposed MCL 206.30f (H.B. 5654)

Legislative Analyst: G. Towne

FISCAL IMPACT

These bills would reduce income tax revenue an estimated \$4.6 million in FY 2000-01, and \$5.9 million in FY 2001-02. This loss in revenue would reduce General Fund/General Purpose revenue an estimated \$4.4 million in FY 2000-01 and \$5.1 million in FY 2001-02, and School Aid Fund revenue would be reduced \$0.2 million in FY 2000-01 and \$0.3 million in FY 2001-02.

Fiscal Analyst: J. Wortley

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.