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SFA

BILL ANALYSIS

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House Bill 5317 (Substitute S-2 as reported)
Sponsor: Representative Gene DeRossett
House Committee: Commerce
Senate Committee: Finance

CONTENT

The bill would amend the Michigan Education Savings Program Act to do the following, effective January 1, 2002:

- Provide that an unqualified withdrawal from an education savings account would not be subject to a State penalty, if a Federal penalty or tax were imposed on the withdrawal.
- Revise the basis for the current State penalty.
- Allow certain charitable entities to open an education savings account.
- Allow an individual account owner to select investment strategies once per year.
- Raise the maximum amount that all accounts, for one individual, may contain.

Under the Act, the proceeds of an education savings account are to be used to pay for a designated beneficiary's higher education expenses. An unqualified withdrawal is subject to a penalty equal to 10% of the distribution, payable to the State's General Fund. The bill provides that a distribution made after December 31, 2001, that was not a qualified withdrawal would not be subject to a penalty, if a penalty or tax were imposed on the distribution under the Internal Revenue Code. If a Federal tax or penalty were not imposed for a distribution that was not a qualified withdrawal, the manager of the education savings program would have to withhold a penalty equal to 10% of the accumulated earnings attributable to the distribution amount (rather than 10% of the distribution amount), for payment to the General Fund.

Currently, the total contributions to all accounts that name one individual as the designated beneficiary may not exceed \$125,000. The bill provides instead that the maximum account balance of all the accounts naming one individual as the designated beneficiary could not exceed \$235,000.

MCL 390.1472

Legislative Analyst: G. Towne

FISCAL IMPACT

State Government. This bill would have a very minimal negative impact on General Fund revenue. Nonqualified withdrawals from education savings accounts have been extremely rare to-date. As a result, the revenue collected from the penalties assessed on these withdrawals, which would be eliminated under this bill, has so far netted the General Fund less than \$1,000.

Local Governments. The bill would have no fiscal impact on local government.

Date Completed: 12-10-01

Fiscal Analyst: J. Wortley