

**SENATE BILL NO. 599**

May 11, 1999, Introduced by Senator ROGERS and referred to the  
Committee on Finance.

A bill to permit the establishment and maintenance of education savings accounts; to provide for certain tax deductions; to prescribe the requirements of and restrictions on education savings accounts; and to provide penalties and remedies.

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1       Sec. 1. This act shall be known and may be cited as the  
2 "education savings account act".

3       Sec. 2. As used in this act:

4       (a) "Account administrator" means a state chartered bank,  
5 savings and loan association, credit union, or trust company  
6 authorized to act as fiduciary and under the supervision of the  
7 financial institutions bureau of the department of consumer and  
8 industry services; or a national banking association or federal  
9 savings and loan association or credit union authorized to act as  
10 fiduciary in this state.

1 (b) "Account holder" means an individual who establishes an  
2 education savings account.

3 (c) "Education savings account" or "account" means an  
4 account established in this state under this act with an account  
5 administrator to pay eligible education expenses.

6 (d) "Eligible education expenses" means expenses paid by the  
7 taxpayer for tuition, books, fees, and supplies related to or in  
8 support of the attendance of any individual at an institution of  
9 higher education.

10 (e) "Institution of higher education" means a college or  
11 university described in section 4, 5, or 6 of article VIII of the  
12 state constitution of 1963, a junior college or community college  
13 established pursuant to section 7 of article VIII of the state  
14 constitution of 1963, or a vocational program that leads to voca-  
15 tional certification and the training for which has instructional  
16 and educational components.

17 Sec. 3. (1) Beginning January 1, 2000, an individual may  
18 contract with an account administrator to establish an education  
19 savings account and make deposits into the account.

20 (2) Except as provided in section 5, deposits up to a maxi-  
21 mum of \$10,000.00 per tax year made into and interest earned on  
22 money in an account are not subject to the state income tax  
23 imposed under the income tax act of 1967, 1967 PA 281, MCL 206.1  
24 to 206.532.

25 Sec. 4. (1) An account administrator shall administer the  
26 education savings account from which the payment for eligible

1 education expenses is made and has a fiduciary duty to the  
2 account holder of the account.

3 (2) The account administrator shall utilize the funds held  
4 in an education savings account solely to pay the eligible educa-  
5 tion expenses claimed by the account holder.

6 (3) To receive money from an account to pay for eligible  
7 education expenses, the account holder shall submit documentation  
8 of education expenses paid by the account holder to the account  
9 administrator, and the account administrator shall reimburse the  
10 account holder from the account holder's account for eligible  
11 education expenses.

12 Sec. 5. (1) If an account holder withdraws money from his  
13 or her education savings account for any purpose other than a  
14 purpose described in section 4(2), the amount withdrawn shall be  
15 added to the account holder's taxable income as defined in sec-  
16 tion 30 of the income tax act of 1967, 1967 PA 281, MCL 206.30,  
17 and is subject to the tax imposed under the income tax act of  
18 1967, 1967 PA 281, MCL 206.1 to 206.532, in the year the with-  
19 drawal is made.

20 (2) Subject to subsection (3), if the account holder with-  
21 draws money for any purpose other than a purpose described in  
22 section 4(2), the administrator shall withhold from the amount of  
23 the withdrawal and pay to the department of treasury on behalf of  
24 the account holder and from the money in the account the esti-  
25 mated tax due on the amount of the withdrawal and a penalty equal  
26 to 10% of the amount of the withdrawal.

1 (3) The amount of a disbursement of any assets of an  
2 education savings account pursuant to a filing for protection  
3 under title 11 of the United States Code, 11 U.S.C. 101 to 1330  
4 by an account holder is not considered a withdrawal for purposes  
5 of this section.

6 (4) Upon the death of the account holder, the account admin-  
7 istrator shall distribute the principal and accumulated interest  
8 of the education savings account to the estate of the account  
9 holder.

10 Enacting section 1. This act does not take effect unless  
11 Senate Bill No. 600

12 of the 90th Legislature is enacted into law.