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BILL ANALYSIS

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House Bill 5534 (Substitute H-1 as reported without amendment)
Sponsor: Representative Gene DeRossett
House Committee: Tax Policy
Senate Committee: Finance

**CONTENT**

The bill would amend the Income Tax Act to allow a person who had an education savings account to claim a State income tax deduction for contributions made after a withdrawal from the account. The bill also would revise the requirement that a taxpayer add to adjusted gross income the amount of a withdrawal that is not a "qualified withdrawal".

The Act allows a deduction for the total of all contributions a taxpayer made in a tax year to education savings accounts under the Michigan Education Savings Program (MESP) Act (not to exceed $5,000 for a single return or $10,000 for a joint return). A deduction is not allowed, however, for contributions to an education savings account in the tax year in which the initial withdrawal is made or any subsequent year. The bill would delete that restriction. Under the bill, a taxpayer could deduct the total of all contributions made to an education savings account in a tax year, less qualified withdrawals made during the tax year.

Under the Income Tax Act, the amount a taxpayer withdrew in a tax year from an education savings account must be added to his or her adjusted gross income if the withdrawal is not a qualified withdrawal under the MESP Act. Under the bill, the amount to be added could not exceed the total amount the taxpayer deducted for education savings account contributions, interest earned on contributions, and qualified withdrawals.

In addition, the requirement that withdrawals that are not qualified withdrawals be added to adjusted gross income, would not apply to withdrawals that were less than the sum of all contributions made to an education savings account in all previous tax years for which no deduction was claimed, less any contributions for which no deduction was claimed that were withdrawn in all previous tax years.

(Under the MESP Act, qualified withdrawals include a withdrawal to pay the qualified higher education expenses of the designated beneficiary of the account; a withdrawal made as a result of the beneficiary's death or disability; and a withdrawal made because the beneficiary received a scholarship; and certain transfers of funds.)

MCL 206.30 Legislative Analyst: J.P. Finet

**FISCAL IMPACT**

Of the $697.5 million currently in the 118,325 MESP accounts, only about $10,000 was withdrawn during the past year. As a result, it is estimated that the bill essentially would have no fiscal impact on State income tax revenue at the present time. In addition, the bill would have no direct impact on local governments.

Date Completed: 9-17-04 Fiscal Analyst: Jay Wortley