

Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA**BILL ANALYSIS**

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 536 (as introduced 6-13-01)
Sponsor: Senator Gary Peters
Committee: Finance

Date Completed: 11-6-01

CONTENT

The bill would amend the Michigan Education Savings Program Act to change the basis upon which penalties are calculated for unqualified withdrawals from an education savings account.

Under the Act, an individual may open an education savings account with a program manager (designated by the State) to save money for qualified higher education expenses of designated beneficiaries. The Act specifies that distributions from an account must be used for qualified higher education expenses, and prescribes various qualified expenses. If a distribution that is not a qualified withdrawal is made, the program manager must withhold an amount equal to 10% of the distribution as a penalty, and pay that amount to the Department of Treasury for deposit into the General Fund. The bill provides instead that the penalty would be equal to 10% of the accumulated earnings attributable to the distribution. The bill also specifies that such distributions would be considered made from the earliest contributions.

MCL 390.1477

Legislative Analyst: G. Towne

FISCAL IMPACT

This bill would have a very minimal negative impact on General Fund revenue. Nonqualified withdrawals from education savings accounts have been very small to date, so the revenue collected from the penalties assessed on these withdrawals, which currently equal 10% of the nonqualified withdrawals, also has been a very small amount. At the present time, this bill would reduce the penalty revenue by about 90% to 95%, but the loss in revenue would decline over time as the accumulated earnings grow.

Fiscal Analyst: J. Wortley

S0102\S536sa

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.