



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



BILL ANALYSIS

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

House Bill 5782 (as passed by the House)
Sponsor: Representative Gene DeRossett
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 8-4-04

CONTENT

The bill would amend the Michigan Education Savings Program (MESP) Act to do the following:

- Allow distributions from an MESP account to a designated beneficiary without documentation that the funds were spent on education-related expenses.**
- Permit an estate or trust to establish an MESP account.**
- Allow an account owner to transfer ownership of an MESP account to another eligible individual or entity.**

The Act permits an individual or a tax-exempt entity to establish an education savings account to pay for the qualified higher education expenses of one or more designated beneficiaries. The individual or entity opening the account is the account owner. The bill would include an estate or trust in the definition of "account owner", and permit an account owner to transfer ownership of all or a portion of an account to an individual or entity eligible to be an account owner under the Act.

The Act permits an account owner to make contributions to an MESP account by check, money order, credit card, or any similar method not including property. The bill would allow contributions to an MESP account to be made by any similar method as approved by the State Treasurer.

Currently, distributions from an MESP account must be used to pay for qualified higher education expenses incurred after the account is established. The bill would delete this language. Instead, it would require that distributions from an account be requested on a form approved by the State Treasurer. The program manager could retain from the distribution the amount necessary to comply with Federal and State Tax laws.

The Act requires that distributions from an account be made only under any of the following circumstances:

- The distribution is made directly to an eligible education institution.
- The distribution is made in the form of a check payable to both the designated beneficiary and the eligible educational institution.
- The distribution is made after the beneficiary submits documentation to show that it is a reimbursement for qualified higher education expenses that had already been paid.

Under the bill, a distribution also could be in the form of a check payable to the designated beneficiary or account holder. The requirement that beneficiaries document their expenses would be removed.

In addition, the bill would remove the following requirements: that the designated beneficiary certify prior to a distribution that the funds will be spent on qualified higher education expenses within a reasonable time; that the designated beneficiary provide documentation of payment of qualified expenses within 30 days of the distribution; and that the MESP retain an account balance large enough to collect any penalties that could be owed if the documentation was not produced.

MCL 390.1472 et al.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Fiscal Analyst: Bill Bowerman