FILED APR 13 1988

SENATE FILE 2340
BY COMMITTEE ON WAYS AND MEANS
(formerly SSB 2274)

Passed Senate, Date ____________ Passed House, Date ____________
Vote: Ayes ________ Nays ________ Vote: Ayes ________ Nays ________
Approved ______________________________

A BILL FOR

An Act relating to individual income tax credits by granting credits for contributing to individual education savings accounts, increasing the personal exemption credits, providing for refunds for child and dependent care credits and providing an effective date.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

SF 2340

TLSB 8427SV 72
mg/cf/24

Section 1. NEW SECTION. 261.5 TRUST FUND.

A college aid trust fund is established in the office of the treasurer of state. The fund shall be an endowment for the college aid commission and moneys deposited in the fund shall not be expended but shall be invested by the treasurer of state in investments authorized for the Iowa public employees' retirement fund in section 97B.7.

Interest earned on the fund is available for appropriation by the general assembly after July 1, 1993, and shall be used for student financial aid purposes.

Sec. 2. NEW SECTION. 422.11B EDUCATION SAVINGS ACCOUNT CREDIT.

1. The taxes imposed under this division shall be reduced by an education savings account credit as provided in this section for a taxpayer who has an adjusted gross income for federal tax purposes for the tax year of forty-five thousand dollars or less. The amount of the credit is equal to five percent of the amount contributed in cash by the taxpayer to an education savings account for the benefit of one named individual who is a resident of this state, not to exceed one thousand dollars for the tax year and not to exceed twenty-four thousand dollars for all tax years. A taxpayer may receive a credit for an education savings account set up for each eligible individual. Married taxpayers shall be treated as one taxpayer for purposes of this section and will qualify for the credit only if their combined adjusted gross income for federal tax purposes for the tax year is forty-five thousand dollars or less. The amount of credit will be based upon the first one thousand dollars contributed by them to the account.

For the purposes of this section, an education savings account is a trust created or organized in the United States for the exclusive benefit of the one individual named by the trustor.

2. The trust must meet the following requirements:

a. The trustee must be a bank, or a person who demonstrates to the satisfaction of the director of revenue and finance that the manner in which the person will administer the trust will be consistent with the requirements of this section.

b. The trust funds shall not be invested in life insurance contracts.

c. The interest of the trustor in the balance of the trust shall be nonforfeitable.

d. The assets of the trust shall not be commingled with other property except in a common trust fund or a common investment fund.

e. The books and records of the trust shall be kept in accordance with this section using the tax year of the trustor and the tax year shall be specified in the governing instrument.

f. The trust shall be created to be an education savings account for the benefit of one named individual other than the trustor, and the date of birth of the named individual shall be specified. A trustor may establish only one trust for each eligible individual under this section.

g. Contributions shall be accepted only from the trustor.

h. Contributions other than qualified rollover contributions shall be accepted only in cash.

i. A contribution shall be accepted as a qualified rollover contribution only if the trustor furnishes to the trustee a written statement from a trustee of another education savings account for the benefit of the same named individual as the trust to which the rollover contribution is to be made, that complies with this section, and the date of distribution shown on the statement is within sixty days before the date of the contribution.

j. A balance in the account on the day after the day on which the beneficiary attains thirty years of age, or, if earlier, the date on which the beneficiary dies, shall be distributed on that date; ninety percent to the trustor and ten percent to the college aid trust fund established in section 261.5.

k. A beneficiary may be the named individual in only one education savings account.

3. a. Except as otherwise provided in this subsection, the amount paid or distributed during a tax year from an education savings account shall be subject to a ten percent tax payable by the trustor for that tax year unless the entire amount is used exclusively to pay certified eligible education expenses incurred by the trustor for the beneficiary. If the amount is used exclusively to pay certified eligible education expenses incurred by the trustor for the beneficiary and the trust meets the requirements of this section, the amount is not subject to the five percent tax imposed in this paragraph for that tax year.

b. Paragraph "a" does not apply to the distribution to the trustor of an amount paid or distributed during a tax year from an education savings account, to the extent that the amount exceeds the amount upon which the credit may be determined under subsection 1, if the distribution is received by the trustor on or before the date prescribed by law, including extensions of time, for filing the trustor's return for that tax year; no credit was allowed under subsection 1 with respect to the excess amount; and the distribution is accompanied by the amount of income attributable to the excess amount. Income attributable to the excess amount shall be included in the net income of the trustor for the tax year in which it is received.

c. Paragraph "a" does not apply to a distribution which is a qualified rollover contribution.

4. a. An education savings account is exempt from taxation under this division unless the account has ceased to be an education savings account. An education savings account ceases to be an education savings account as of the first day

of the tax year of the trustor, if the beneficiary attains twenty-two years of age and is not at least a half-time student at a qualified educational institution for the calendar year ending during the tax year; if the beneficiary attains twenty-five years of age and is not a full-time student at a qualified educational institution for the calendar year ending during the tax year; if the beneficiary attains thirty years of age; if the trustor uses the account or any portion of the account as security for a loan; or if the trustor transfers an ownership interest in the account, including a transfer by operation of law.

However, the prohibition on a transfer of ownership of the account does not apply to a transfer of an education savings account, as a result of the death of the trustor, to the beneficiary or to the estate of the deceased trustor in order that the estate may transfer the account to the beneficiary pursuant to the will of the deceased trustor; to a transfer of an education savings account, as a result of the death of the trustor, to another individual or to the estate of the deceased trustor in order that the estate may transfer the account to another individual pursuant to the will of the deceased trustor if the individual makes a qualified rollover contribution with respect to the account; or to a transfer of an education savings account pursuant to the divorce of the trustor of the account if the transferee is required by law to use the account for the purposes of paying the certified eligible education expenses of the beneficiary of the account.

b. If an account ceases to be an education savings account on the first day of a tax year, subsection 3 shall be applied as if there were a distribution of all of the assets of the account on the first day of the tax year.

5. For purposes of this section, the following definitions apply:

a. "Named individual" or "beneficiary" means an eligible individual specified in the written governing instrument of an education savings account.

b. "Eligible individual" means an individual who is a son, daughter, stepson, or stepdaughter of the trustor of the account, or a descendant of any of the individuals listed.

c. "Certified eligible education expenses" means, with respect to a beneficiary, the sum of the amount of eligible education expenses with respect to the beneficiary which are paid by the taxpayer during the tax year to a qualified educational institution, as reflected in a written certification from that institution; plus the lesser of the off-campus housing expenses with respect to the beneficiary for the tax year, or the amount of cash provided by the taxpayer to the beneficiary, or if the taxpayer is the trustor, the amount spent by the taxpayer on room and board during the year. Off-campus housing expenses shall be certified by the eligible institution pursuant to subsection 9, paragraph "d".

d. "Eligible education expenses" means, with respect to a beneficiary, the sum of amounts charged for tuition for, and room and board provided by, a qualified educational institution to the beneficiary in connection with the full-time enrollment of the beneficiary in one or more terms of qualified education; plus the amounts charged for tuition for the part-time enrollment of the beneficiary in one or more terms of qualified education.

e. "Qualified education" means a program leading to a degree or certification at a qualified educational institution.

f. "Qualified educational institution" means a not-for-profit institution approved by a recognized accrediting agency as determined by the college aid commission.

g. "Qualified rollover contribution" means a contribution for which the entire amount of the contribution, including money and any other property, represents the distribution to the taxpayer of the entire amount of a previous education savings account, as reflected in a statement from the trustee of the account furnished to the trustee of the new education savings account which has the same beneficiary as the previous account; the contribution to the new account was made on or before the earlier of the beginning of the tax year of the taxpayer in which the beneficiary attains thirty years of age, or the date sixty days after the day on which the distribution from the previous account occurs; and no rollover contribution described in this paragraph was made to the previous education savings account during the one-year period ending on the day on which the distribution from the previous account occurs.

"Qualified rollover contribution" includes a contribution for which the entire amount of the contribution, including money and any other property, represents the distribution to the taxpayer of the entire amount of a previous education savings account that was acquired as a result of the death of the trustor of the account, as reflected in a statement from the trustee of the account furnished to the trustee of the new education savings account which has the same beneficiary as the previous account; and the contribution to the new account was made within all of the following time limits:

(1) On or before the later of the date one year after the date of death of the trustor of the previous education savings account or the date sixty days after the date on which the previous account was transferred to the taxpayer.

(2) On or before the earlier of the beginning of the tax year of the taxpayer in which the beneficiary attains age thirty or the date sixty days after the date on which the distribution from the previous account occurs.

(3) At a time when the beneficiary is an eligible individual with respect to the taxpayer.

6. The director shall adopt rules for the application of this section, including rules with respect to, but not limited to all of the following:

a. An education savings account that receives a qualified rollover contribution.

b. An education savings account transferred as a result of the death of the trustor of the account.

c. A taxpayer who owns more than one education savings account with respect to the same beneficiary during the tax year.

d. A tax year in which a beneficiary attends more than one qualified educational institution.

e. The limitation of the certified eligible education expenses of all taxpayers with respect to a single beneficiary for a tax year, so that the total amount with respect to off-campus room and board used in determining the total amount of the expenses in the year does not exceed the actual qualified off-campus housing expenses with respect to the beneficiary for the tax year.

7. For purposes of this section, a taxpayer is deemed to have made a contribution to an education savings account on the last day of a tax year if the contribution is made on account of the tax year and is made not later than the time prescribed by law for filing the return for the tax year, including extensions.

8. For purposes of this section, a custodial account shall be treated as a trust if the assets of the account are held by a bank, within the meaning of section 408(n) of the Internal Revenue Code, or another person who demonstrates to the satisfaction of the director, that the manner in which that person will administer the account will be consistent with the requirements of this section, and if the custodial account would, except for the fact that it is not a trust, constitute an education savings account. In the case of a custodial account treated as a trust by reason of the preceding sentence, the custodian of the account shall be treated as the trustee of the account.

9. The following reports shall be made:

a. The trustee of an education savings account from which any distribution was made during a tax year shall, within forty-five days after the close of the tax year, make a report to the director and the trustor of the account showing the name and address of the trustor of the account and the amount of the distributions.

b. The trustee of an education savings account shall, within forty-five days after the date the beneficiary attained age thirty, make a report to the director and the trustor of the account showing the name and address of the trustor of the account and the fact that the beneficiary attained age thirty and the date on which the beneficiary attained age thirty.

c. The trustee of an education savings account shall make reports and furnish statements with respect to contributions, distributions, and other matters, as the director may require by rules.

d. A qualified educational institution certifying eligible education expenses and qualified off-campus housing expenses shall do so as the director may by rule require. The certifications shall contain additional information as the director may by forms or rules require.

10. If the amount of the education savings account credit exceeds the amount of tax under this division, the excess amount may be carried forward to subsequent tax years until used.

11. If the education savings account credit is taken under this section, the director shall deposit into the college aid trust fund established in section 261.5, from taxes collected under this division, an amount equal to one percent of the amount contributed by the taxpayer to the education savings account upon which the taxpayer's credit was determined.

Sec. 3. Section 422.12, unnumbered paragraph 1, Code Supplement 1987, is amended to read as follows:

There shall be deducted from but not to exceed the tax, except as provided in subsection 2, after the same shall have been computed as provided in this division, the following:

Sec. 4. Section 422.12, subsections 1 and 2, Code Supplement 1987, are amended to read as follows:

1. A personal exemption credit in the following amounts:

a. For an estate or trust, a single individual, or a married person filing a separate return, ~~fifteen~~ twenty-five dollars.

b. For a head of household, or a husband and wife filing a joint return, ~~thirty~~ fifty dollars.

c. For each dependent, an additional ~~ten~~ twenty-five dollars. As used in this section, the term "dependent" shall have the same meaning as provided by the Internal Revenue Code of 1954.

d. For a single individual, husband, wife or head of household, an additional exemption of ~~fifteen~~ twenty-five dollars for each of said individuals who has attained the age of sixty-five years before the close of the tax year or on the first day following the end of the tax year.

e. For a single individual, husband, wife or head of household, an additional exemption of ~~fifteen~~ twenty-five dollars for each of said individuals who is blind at the close of the tax year. For the purposes of this paragraph, an individual is blind only if the individual's central visual acuity does not exceed twenty-two hundredths in the better eye with correcting lenses, or if the individual's visual acuity is greater than twenty-two hundredths but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than twenty degrees.

~~f.--For-tax-years-beginning-on-or-after-January-1,-1979-and for-each-of-the-next-four-succeeding-tax-years,-the-amount-of the-personal-exemption-credits-provided-in-this-subsection shall-be-increased-in-the-amount-of-one-dollar-for-each-tax year,-except-that-the-personal-exemption-credit-allowed-under paragraph-"b"-of-this-subsection-shall-be-increased-in-the amount-of-two-dollars-for-each-tax-year.--The-personal~~

~~exemption-credits-determined-pursuant-to-this-paragraph-for tax-years-beginning-on-or-after-January-1,-1983-shall-continue for-succeeding-tax-years.~~

2. A After the deduction of the other credits under this section, a child and dependent care credit equal to forty-five percent of the federal child and dependent care credit provided in section 21 of the Internal Revenue Code of 1954. The amount of the child and dependent care credit in excess of the tax is refundable to the taxpayer or, at the option of the taxpayer, may be used as a refundable credit for the following tax year.

Married taxpayers electing to file separate returns or filing separately on a combined return must allocate the child and dependent care credit to each spouse in the proportion that each spouse's respective net income bears to the total combined net income. Taxpayers affected by the allocation provisions of section 422.8 shall be permitted a deduction for the credit only in the amount fairly and equitably allocable to Iowa under rules prescribed by the director.

Sec. 5. This Act is effective January 1, 1989, for tax years beginning on or after that date.

EXPLANATION

The bill authorizes the establishment of tax exempt education savings accounts by individuals with annual adjusted gross income of forty-five thousand dollars or less for payment of college costs of named individuals. Married taxpayers must have a combined annual adjusted gross income of forty-five thousand dollars or less to qualify and are treated as one taxpayer for purposes of determining the amount of credit. A credit of five percent of the amount contributed to the account is allowed to offset the person's individual income tax and earn tax-free interest, somewhat similarly to individual retirement accounts.

The bill increases the personal exemption credit for income tax purposes to $50 for married persons filing jointly and $25 for all other filers, dependents, and blind and elderly and makes the child and dependent care credit a refundable credit.

SUCCESSOR TO SSB 2274 (LSB 8427SC)

STATE OF IOWA

FILED APR 14 1988

FISCAL NOTE

SENATE FILE 2340

LSB No. 8427s
Staff ID. PDD

In compliance with a written request received April 14, 1988, a fiscal note for SENATE FILE 2340 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate File 2340 authorizes the establishment of tax exempt education savings accounts by individuals with annual adjusted gross income of $45,000 or less for payment of college costs of named individuals. Married taxpayers must have a combined annual adjusted gross income of $45,000 or less to qualify and are treated as one taxpayer for purposes of determining the amount of credit. A credit of five percent of the amount contributed to the account is allowed to offset the person's individual income tax and earn tax-free interest, somewhat similarly to individual retirement accounts.

The bill increases the personal exemption credit for income tax purposes to $50 for married persons filing jointly and $25 for all other filers, dependents, and blind and elderly and makes the child and dependent care credit a refundable credit.

ASSUMPTIONS

1. Individual Education Account (IEA) participation rates and average contributions by income class will be similar to national Individual Retirement Account (IRA) participation rates and average contributions by income class for 1985.

2. The number of families with tax liability with children likely to go to college is estimated to be 148,766.

FISCAL EFFECT

The Legislative Fiscal Bureau estimates the IEA tax credit provision to result in a revenue loss of about $1.0 million in FY 90.

The Department of Revenue and Finance estimates the increase in exemption credits will result in a revenue loss of about $14.0 to $15.0 million annually. The increases are effective for tax years 1989 and beyond, reducing tax liability for FY 90 and subsequent fiscal years. Changing the child care credit from a nonrefundable to a refundable credit would also result in a revenue loss; however, the amount is unknown.

Sources: Department of Revenue and Finance
Statistical Abstract of the U.S.--1987
U.S. Treasury Department

(LSB 8427s, PDD)

Dennis C. Prouty
Fiscal Director
Legislative Fiscal Bureau
Date: 4/14/88

LSB

BRUNER, CH.
MURPHY
DRAKE

SSB 2274
WAYS & MEANS
New

SENATE FILE 2340
BY (PROPOSED COMMITTEE ON WAYS AND MEANS BILL)

Passed Senate, Date ____________ Passed House, Date ____________
Vote: Ayes _______ Nays ________ Vote: Ayes _______ Nays ________
Approved ______________________________

A BILL FOR

An Act relating to individual income tax credits by granting credits for contributing to individual education savings accounts, increasing the personal exemption credits, providing for refunds for child and deppendent care credits and providing an effective date.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

TLSB 8427SC 72
mg/cf/24

Section 1. NEW SECTION. 261.5 TRUST FUND.

A college aid trust fund is established in the office of the treasurer of state. The fund shall be an endowment for the college aid commission and moneys deposited in the fund shall not be expended but shall be invested by the treasurer of state in investments authorized for the Iowa public employees' retirement fund in section 97B.7.

Interest earned on the fund is available for appropriation by the general assembly after July 1, 1993, and shall be used for student financial aid purposes.

Sec. 2. NEW SECTION. 422.11B EDUCATION SAVINGS ACCOUNT CREDIT.

1. The taxes imposed under this division shall be reduced by an education savings account credit as provided in this section for a taxpayer who has an adjusted gross income for federal tax purposes for the tax year of forty-five thousand dollars or less. The amount of the credit is equal to five percent of the amount contributed in cash by the taxpayer to an education savings account for the benefit of one named individual who is a resident of this state, not to exceed one thousand dollars for the tax year and not to exceed twenty-four thousand dollars for all tax years. A taxpayer may receive a credit for an education savings account set up for each eligible individual. Married taxpayers shall be treated as one taxpayer for purposes of this section and will qualify for the credit only if their combined adjusted gross income for federal tax purposes for the tax year is forty-five thousand dollars or less. The amount of credit will be based upon the first one thousand dollars contributed by them to the account.

For the purposes of this section, an education savings account is a trust created or organized in the United States for the exclusive benefit of the one individual named by the trustor.

2. The trust must meet the following requirements:

a. The trustee must be a bank, or a person who demonstrates to the satisfaction of the director of revenue and finance that the manner in which the person will administer the trust will be consistent with the requirements of this section.

b. The trust funds shall not be invested in life insurance contracts.

c. The interest of the trustor in the balance of the trust shall be nonforfeitable.

d. The assets of the trust shall not be commingled with other property except in a common trust fund or a common investment fund.

e. The books and records of the trust shall be kept in accordance with this section using the tax year of the trustor and the tax year shall be specified in the governing instrument.

f. The trust shall be created to be an education savings account for the benefit of one named individual other than the trustor, and the date of birth of the named individual shall be specified. A trustor may establish only one trust for each eligible individual under this section.

g. Contributions shall be accepted only from the trustor.

h. Contributions other than qualified rollover contributions shall be accepted only in cash.

i. A contribution shall be accepted as a qualified rollover contribution only if the trustor furnishes to the trustee a written statement from a trustee of another education savings account for the benefit of the same named individual as the trust to which the rollover contribution is to be made, that complies with this section, and the date of distribution shown on the statement is within sixty days before the date of the contribution.

j. A balance in the account on the day after the day on which the beneficiary attains thirty years of age, or, if earlier, the date on which the beneficiary dies, shall be distributed on that date; ninety percent to the trustor and ten percent to the college aid trust fund established in section 261.5.

k. A beneficiary may be the named individual in only one education savings account.

3. a. Except as otherwise provided in this subsection, the amount paid or distributed during a tax year from an education savings account shall be subject to a ten percent tax payable by the trustor for that tax year unless the entire amount is used exclusively to pay certified eligible education expenses incurred by the trustor for the beneficiary. If the amount is used exclusively to pay certified eligible education expenses incurred by the trustor for the beneficiary and the trust meets the requirements of this section, the amount is not subject to the five percent tax imposed in this paragraph for that tax year.

b. Paragraph "a" does not apply to the distribution to the trustor of an amount paid or distributed during a tax year from an education savings account, to the extent that the amount exceeds the amount upon which the credit may be determined under subsection 1, if the distribution is received by the trustor on or before the date prescribed by law, including extensions of time, for filing the trustor's return for that tax year; no credit was allowed under subsection 1 with respect to the excess amount; and the distribution is accompanied by the amount of income attributable to the excess amount. Income attributable to the excess amount shall be included in the net income of the trustor for the tax year in which it is received.

c. Paragraph "a" does not apply to a distribution which is a qualified rollover contribution.

4. a. An education savings account is exempt from taxation under this division unless the account has ceased to be an education savings account. An education savings account ceases to be an education savings account as of the first day

of the tax year of the trustor, if the beneficiary attains twenty-two years of age and is not at least a half-time student at a qualified educational institution for the calendar year ending during the tax year; if the beneficiary attains twenty-five years of age and is not a full-time student at a qualified educational institution for the calendar year ending during the tax year; if the beneficiary attains thirty years of age; if the trustor uses the account or any portion of the account as security for a loan; or if the trustor transfers an ownership interest in the account, including a transfer by operation of law.

However, the prohibition on a transfer of ownership of the account does not apply to a transfer of an education savings account, as a result of the death of the trustor, to the beneficiary or to the estate of the deceased trustor in order that the estate may transfer the account to the beneficiary pursuant to the will of the deceased trustor; to a transfer of an education savings account, as a result of the death of the trustor, to another individual or to the estate of the deceased trustor in order that the estate may transfer the account to another individual pursuant to the will of the deceased trustor if the individual makes a qualified rollover contribution with respect to the account; or to a transfer of an education savings account pursuant to the divorce of the trustor of the account if the transferee is required by law to use the account for the purposes of paying the certified eligible education expenses of the beneficiary of the account.

b. If an account ceases to be an education savings account on the first day of a tax year, subsection 3 shall be applied as if there were a distribution of all of the assets of the account on the first day of the tax year.

5. For purposes of this section, the following definitions apply:

a. "Named individual" or "beneficiary" means an eligible individual specified in the written governing instrument of an education savings account.

b. "Eligible individual" means an individual who is a son, daughter, stepson, or stepdaughter of the trustor of the account, or a descendant of any of the individuals listed.

c. "Certified eligible education expenses" means, with respect to a beneficiary, the sum of the amount of eligible education expenses with respect to the beneficiary which are paid by the taxpayer during the tax year to a qualified educational institution, as reflected in a written certification from that institution; plus the lesser of the off-campus housing expenses with respect to the beneficiary for the tax year, or the amount of cash provided by the taxpayer to the beneficiary, or if the taxpayer is the trustor, the amount spent by the taxpayer on room and board during the year. Off-campus housing expenses shall be certified by the eligible institution pursuant to subsection 9, paragraph "d".

d. "Eligible education expenses" means, with respect to a beneficiary, the sum of amounts charged for tuition for, and room and board provided by, a qualified educational institution to the beneficiary in connection with the full-time enrollment of the beneficiary in one or more terms of qualified education; plus the amounts charged for tuition for the part-time enrollment of the beneficiary in one or more terms of qualified education.

e. "Qualified education" means a program leading to a degree or certification at a qualified educational institution.

f. "Qualified educational institution" means a not-for-profit institution approved by a recognized accrediting agency as determined by the college aid commission.

g. "Qualified rollover contribution" means a contribution for which the entire amount of the contribution, including money and any other property, represents the distribution to the taxpayer of the entire amount of a previous education savings account, as reflected in a statement from the trustee of the account furnished to the trustee of the new education savings account which has the same beneficiary as the previous account; the contribution to the new account was made on or before the earlier of the beginning of the tax year of the taxpayer in which the beneficiary attains thirty years of age, or the date sixty days after the day on which the distribution from the previous account occurs; and no rollover contribution described in this paragraph was made to the previous education savings account during the one-year period ending on the day on which the distribution from the previous account occurs.

"Qualified rollover contribution" includes a contribution for which the entire amount of the contribution, including money and any other property, represents the distribution to the taxpayer of the entire amount of a previous education savings account that was acquired as a result of the death of the trustor of the account, as reflected in a statement from the trustee of the account furnished to the trustee of the new education savings account which has the same beneficiary as the previous account; and the contribution to the new account was made within all of the following time limits:

(1) On or before the later of the date one year after the date of death of the trustor of the previous education savings account or the date sixty days after the date on which the previous account was transferred to the taxpayer.

(2) On or before the earlier of the beginning of the tax year of the taxpayer in which the beneficiary attains age thirty or the date sixty days after the date on which the distribution from the previous account occurs.

(3) At a time when the beneficiary is an eligible individual with respect to the taxpayer.

6. The director shall adopt rules for the application of this section, including rules with respect to, but not limited to all of the following:

a. An education savings account that receives a qualified rollover contribution.

b. An education savings account transferred as a result of the death of the trustor of the account.

c. A taxpayer who owns more than one education savings account with respect to the same beneficiary during the tax year.

d. A tax year in which a beneficiary attends more than one qualified educational institution.

e. The limitation of the certified eligible education expenses of all taxpayers with respect to a single beneficiary for a tax year, so that the total amount with respect to off-campus room and board used in determining the total amount of the expenses in the year does not exceed the actual qualified off-campus housing expenses with respect to the beneficiary for the tax year.

7. For purposes of this section, a taxpayer is deemed to have made a contribution to an education savings account on the last day of a tax year if the contribution is made on account of the tax year and is made not later than the time prescribed by law for filing the return for the tax year, including extensions.

8. For purposes of this section, a custodial account shall be treated as a trust if the assets of the account are held by a bank, within the meaning of section 408(n) of the Internal Revenue Code, or another person who demonstrates to the satisfaction of the director, that the manner in which that person will administer the account will be consistent with the requirements of this section, and if the custodial account would, except for the fact that it is not a trust, constitute an education savings account. In the case of a custodial account treated as a trust by reason of the preceding sentence, the custodian of the account shall be treated as the trustee of the account.

9. The following reports shall be made:

a. The trustee of an education savings account from which any distribution was made during a tax year shall, within forty-five days after the close of the tax year, make a report to the director and the trustor of the account showing the name and address of the trustor of the account and the amount of the distributions.

b. The trustee of an education savings account shall, within forty-five days after the date the beneficiary attained age thirty, make a report to the director and the trustor of the account showing the name and address of the trustor of the account and the fact that the beneficiary attained age thirty and the date on which the beneficiary attained age thirty.

c. The trustee of an education savings account shall make reports and furnish statements with respect to contributions, distributions, and other matters, as the director may require by rules.

d. A qualified educational institution certifying eligible education expenses and qualified off-campus housing expenses shall do so as the director may by rule require. The certifications shall contain additional information as the director may by forms or rules require.

10. If the amount of the education savings account credit exceeds the amount of tax under this division, the excess amount may be carried forward to subsequent tax years until used.

11. If the education savings account credit is taken under this section, the director shall deposit into the college aid trust fund established in section 261.5, from taxes collected under this division, an amount equal to one percent of the amount contributed by the taxpayer to the education savings account upon which the taxpayer's credit was determined.

Sec. 3. Section 422.12, unnumbered paragraph 1, Code Supplement 1987, is amended to read as follows:

There shall be deducted from but not to exceed the tax, except as provided in subsection 2, after the same shall have been computed as provided in this division, the following:

Sec. 4. Section 422.12, subsections 1 and 2, Code Supplement 1987, are amended to read as follows:

1. A personal exemption credit in the following amounts:

a. For an estate or trust, a single individual, or a married person filing a separate return, ~~fifteen~~ twenty-five dollars.

b. For a head of household, or a husband and wife filing a joint return, ~~thirty~~ fifty dollars.

c. For each dependent, an additional ~~ten~~ twenty-five dollars. As used in this section, the term "dependent" shall have the same meaning as provided by the Internal Revenue Code of 1954.

d. For a single individual, husband, wife or head of household, an additional exemption of ~~fifteen~~ twenty-five dollars for each of said individuals who has attained the age of sixty-five years before the close of the tax year or on the first day following the end of the tax year.

e. For a single individual, husband, wife or head of household, an additional exemption of ~~fifteen~~ twenty-five dollars for each of said individuals who is blind at the close of the tax year. For the purposes of this paragraph, an individual is blind only if the individual's central visual acuity does not exceed twenty-two hundredths in the better eye with correcting lenses, or if the individual's visual acuity is greater than twenty-two hundredths but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than twenty degrees.

~~f.--For-tax-years-beginning-on-or-after-January-1,-1979-and for-each-of-the-next-four-succeeding-tax-years,-the-amount-of the-personal-exemption-credits-provided-in-this-subsection shall-be-increased-in-the-amount-of-one-dollar-for-each-tax year,-except-that-the-personal-exemption-credit-allowed-under paragraph-"b"-of-this-subsection-shall-be-increased-in-the amount-of-two-dollars-for-each-tax-year.--The-personal~~

~~exemption credits determined pursuant to this paragraph for tax years beginning on or after January 1, 1983 shall continue for succeeding tax years.~~

2. ~~A~~ After the deduction of the other credits under this section, a child and dependent care credit equal to forty-five percent of the federal child and dependent care credit provided in section 21 of the Internal Revenue Code of 1954. The amount of the child and dependent care credit in excess of the tax is refundable to the taxpayer or, at the option of the taxpayer, may be used as a refundable credit for the following tax year.

Married taxpayers electing to file separate returns or filing separately on a combined return must allocate the child and dependent care credit to each spouse in the proportion that each spouse's respective net income bears to the total combined net income. Taxpayers affected by the allocation provisions of section 422.8 shall be permitted a deduction for the credit only in the amount fairly and equitably allocable to Iowa under rules prescribed by the director.

Sec. 5. This Act is effective January 1, 1989, for tax years beginning on or after that date.

EXPLANATION

The bill authorizes the establishment of tax exempt education savings accounts by individuals with annual adjusted gross income of forty-five thousand dollars or less for payment of college costs of named individuals. Married taxpayers must have a combined annual adjusted gross income of forty-five thousand dollars or less to qualify and are treated as one taxpayer for purposes of determining the amount of credit. A credit of five percent of the amount contributed to the account is allowed to offset the person's individual income tax and earn tax-free interest, somewhat similarly to individual retirement accounts.

The bill increases the personal exemption credit for income tax purposes to $50 for married persons filing jointly and $25 for all other filers, dependents, and blind and elderly and makes the child and dependent care credit a refundable credit.