

FILED APR 01 '04

SENATE FILE 2303
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SF 2003)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved Veto 5/14/04

A BILL FOR

1 An Act providing for an individual income tax deduction for
2 contributions made to a qualified tuition program established
3 by certain educational institutions and including effective
4 and retroactive applicability date provisions.

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

- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23

SF 2303
WAYS & MEANS

1 Section 1. Section 422.7, Code Supplement 2003, is amended
2 by adding the following new subsection:

3 NEW SUBSECTION. 32A. a. Subtract contributions made by
4 the taxpayer as a participant in a qualified tuition program,
5 as defined in section 529(b) of the Internal Revenue Code,
6 established by one or more eligible educational institutions.
7 The maximum amount that may be subtracted under this paragraph
8 equals the maximum amount that is deductible under section
9 12D.3, subsection 1, paragraph "a", for contributions made to
10 the Iowa educational savings plan trust minus any amount
11 subtracted pursuant to subsection 32, paragraph "a", of this
12 section.

13 b. Add the amount of cash refunds or withdrawals refunded
14 to the taxpayer as a participant in a qualified tuition
15 program that is not used to satisfy qualified higher education
16 expenses, as defined in section 529(e) of the Internal Revenue
17 Code, to the extent previously deducted under paragraph "a".

18 Sec. 2. EFFECTIVE AND RETROACTIVE DATE. This Act, being
19 deemed of immediate importance, takes effect upon enactment
20 and applies retroactively to January 1, 2004, for tax years
21 beginning on or after that date.

22 EXPLANATION

23 This bill allows for an individual income tax deduction for
24 contributions made to a qualified tuition program established
25 by one or more educational institutions. The program is the
26 counterpart to the Iowa educational savings plan trust (state
27 program) and allows a taxpayer to make contributions to a
28 trust set up in the name of a designated beneficiary to pay
29 the costs associated with higher education. The amount that
30 may be deducted is the maximum amount that may be deducted for
31 contributions to the state program (\$2,000, to be adjusted for
32 inflation) less any amount that has been deducted for the tax
33 year for contributions to the state program.

34 The bill also provides that any refunds or withdrawals made
35 which the taxpayer receives and which are not used for

1 qualified tuition costs are to be included in income to the
2 extent previously deducted.

3 The bill takes effect upon enactment and applies
4 retroactively to January 1, 2004, for tax years beginning on
5 or after that date.

6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35

Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 2303 - Higher Education Plan Income Tax Deductions (LSB 5066 SV)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New

Description

Senate File 2303 allows Iowa income tax deductions for contributions made to qualified tuition programs (i.e.: Independent 529 Plan). An Independent 529 Plan is a counterpart to College Savings Iowa administered by the Treasurer of State. The tax law change applies retroactively to tax years beginning on or after January 1, 2004.

Assumptions

1. There are 3,200 private college students that will benefit from the Iowa tax-deductible status of contributions to a qualified tuition program.
2. The average total annual contribution on behalf of each student will be \$1,450.
3. The average marginal State income tax rate will be 5.5%.
4. The creation of the new deduction will not impact the General Fund cost of the deduction allowed for contributions to College Savings Iowa.

Fiscal Impact

The tax deduction created in Senate File 2303 will reduce General Fund income tax receipts by \$255,000 per year, starting FY 2005.

Source

Department of Revenue

Dennis C Prouty

April 6, 2004

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

May 14, 2004

VETO

The Honorable Chester Culver
Secretary of State
State Capitol Building
L O C A L

Dear Mr. Secretary:

I hereby transmit **Senate File 2303**, an Act providing for an individual income tax deduction for contributions made to a qualified tuition program established by certain educational institutions and including effective and retroactive applicability date provisions.

I am unable to approve **Senate File 2303**. This bill allows Iowa income tax deductions for contributions made to qualified tuition programs established by educational institutions, namely the Independent 529 Plan. The Independent 529 Plan is a counterpart to College Savings Iowa which was established five years ago and is recognized as one of the nation's best plans. No other state has broadened the state tax deductibility to Independent 529 Plans.

Independent 529 Plans require the schools to offer pre-paid plans. Many states that have sponsored similar plans across the country have suspended offering these plans to new students or participants because they are not financially sound.

The bill reduces state revenue at a time when the legislature is struggling to find adequate resources for the education, health care, and public safety that Iowans value. I recognize that the amount of reduction appears minimal, but common sense suggests that you do not reduce revenue by any amount until you have adequate revenue to meet priority needs.

For the above reasons, I hereby respectfully disapprove **Senate File 2303**.

Sincerely,

Thomas J. Vilsack
Governor

TJV:jmc

cc: Secretary of the Senate
Chief Clerk of the House

VETO

Sec. 2. EFFECTIVE AND RETROACTIVE DATE. This Act, being deemed of immediate importance, takes effect upon enactment and applies retroactively to January 1, 2004, for tax years beginning on or after that date.

SENATE FILE 2303

AN ACT

PROVIDING FOR AN INDIVIDUAL INCOME TAX DEDUCTION FOR CONTRIBUTIONS MADE TO A QUALIFIED TUITION PROGRAM ESTABLISHED BY CERTAIN EDUCATIONAL INSTITUTIONS AND INCLUDING EFFECTIVE AND RETROACTIVE APPLICABILITY DATE PROVISIONS.

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

Section 1. Section 422.7, Code Supplement 2003, is amended by adding the following new subsection:

NEW SUBSECTION. 32A. a. Subtract contributions made by the taxpayer as a participant in a qualified tuition program, as defined in section 529(b) of the Internal Revenue Code, established by one or more eligible educational institutions. The maximum amount that may be subtracted under this paragraph equals the maximum amount that is deductible under section 12D.3, subsection 1, paragraph "a", for contributions made to the Iowa educational savings plan trust minus any amount subtracted pursuant to subsection 32, paragraph "a", of this section.

b. Add the amount of cash refunds or withdrawals refunded to the taxpayer as a participant in a qualified tuition program that is not used to satisfy qualified higher education expenses, as defined in section 529(e) of the Internal Revenue Code, to the extent previously deducted under paragraph "a".

JEFFREY M. LAMBERTI
President of the Senate

CHRISTOPHER C. RANTS
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 2303, Eightieth General Assembly.

MICHAEL E. MARSHALL
Secretary of the Senate

Approved _____, 2004

THOMAS J. VILSACK
Governor