

FEB 27 1996
WAYS AND MEANS

HOUSE FILE 2364
BY GREINER

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to establishing education investment accounts,
2 providing state income tax deductions, and providing
3 applicability and effective date provisions.

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

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HF 2364

1 Section 1. NEW SECTION. 260G.1 EDUCATION INVESTMENT
2 ACCOUNT.

3 1. A financial instrument known as an education investment
4 account is established. An education investment account shall
5 have all of the following characteristics:

6 a. The account is established in the name of an
7 individual, the individual's spouse, or the individual's
8 dependent.

9 b. Deposits of up to two thousand dollars for an
10 individual, or four thousand dollars for an individual and the
11 individual's spouse or dependent, can be made to an education
12 investment account in the year.

13 c. The account earns income or interest.

14 d. In the case of death of an individual with an education
15 investment account, the balance can be transferred to the
16 account of the spouse or a dependent or an account can be
17 established for the spouse or a dependent. The balance of an
18 individual's education investment account transferring to the
19 spouse or a dependent at the time of death is not subject to
20 the state inheritance tax.

21 e. An education investment account may be used for the
22 following purposes:

23 (1) To receive deposits of pretax income to provide a
24 savings vehicle for future postsecondary education expenses.

25 (2) To accrue interest income on a tax-exempt or tax-
26 deferred basis to the extent otherwise permitted by state and
27 federal income tax law.

28 (3) To apply accumulated deposits and the interest income
29 generated therefrom to the payment of postsecondary education
30 tuition and textbooks, computers, and software related.

31 f. Payments from an education investment account are
32 restricted as follows:

33 (1) Amounts withdrawn prior to a dependent subject to a
34 premature withdrawal civil penalty of ten percent.

35 (2) Amounts accumulated must be withdrawn or otherwise

1 expended for tuition and textbook, computer, and software
2 related expenses by the dependent's age twenty-five.

3 (3) Amounts accumulated and withdrawn after the
4 dependent's age eighteen and prior to the mandatory age
5 twenty-five withdrawal shall be subject to a ten percent civil
6 penalty if expended for a purpose unrelated to tuition and
7 textbook, computer, and software related expenses.

8 (4) Amounts will be taxable when withdrawn. Withdrawals
9 can either be taken in a lump-sum or in installments and will
10 be taxed as ordinary income when received.

11 2. Eligible financial institutions for the establishment
12 and administration of an education investment account shall be
13 determined by the department of education, in cooperation with
14 the banking division of the department of commerce as
15 established in section 546.3.

16 A financial institution holding an education investment
17 account shall make an annual report to the department of
18 revenue and finance on contributions and withdrawals to the
19 account in the year pursuant to rules of the department of
20 revenue and finance.

21 Sec. 2. Section 422.7, Code Supplement 1995, is amended by
22 adding the following new subsections:

23 NEW SUBSECTION. 35. a. Subtract up to two thousand
24 dollars contributed by the individual to an education
25 investment account. The deduction for contributions to an
26 education investment account is allowed if the taxpayer's net
27 income is forty thousand dollars or less in the case of a
28 married individual, an unmarried head of household, or a
29 surviving spouse, or the taxpayer's net income is thirty
30 thousand dollars or less in the case of all other persons. In
31 the case of a married individual, the combined net income of
32 both spouses shall be considered.

33 b. Subtract to the extent included, interest earned in the
34 tax year on an education investment account unless the
35 interest is withdrawn and not used for an approved purpose

1 described in section 260G.1, subsection 1, paragraph "e".

2 c. Add to the extend not included, amounts withdrawn from
3 an education investment account which were not used for any of
4 the approved purposes described in section 260G.1, subsection
5 1, paragraph "e", and which represent tax benefits previously
6 taken by the individual.

7 Sec. 3. This Act takes effect January 1, 1997, for tax
8 years beginning on or after that date.

9 EXPLANATION

10 This bill creates an education investment account to
11 provide a tax-advantaged savings vehicle for dependent child
12 postsecondary education expenses. Deposits per adult
13 individual of up to \$2,000 annually can be made on a pretax
14 basis, with interest income accumulating tax-deferred. Civil
15 withdrawal penalties are provided for premature withdrawals,
16 or for withdrawals between the dependent's age 18 through 25
17 for uses other than the prescribed use of tuition and
18 textbook, computer, and software related expenses.

19 The bill is effective January 1, 1997, for tax years
20 beginning on or after that date.

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