

MAR 13 1997

WAYS AND MEANS

HOUSE FILE 620
BY LARSON

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

A BILL FOR

1 An Act relating to establishing a prepaid tuition program that
2 provides for individual savings accounts to be used for higher
3 education tuition expenses, providing income tax exemptions
4 for earnings of the account, and including an effective and
5 retroactive applicability date provision.

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

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HF 620

1 Section 1. Section 422.7, Code 1997, is amended by adding
2 the following new subsection:

3 NEW SUBSECTION. 35. a. Subtract, to the extent included,
4 earnings on a prepaid tuition savings account that have not
5 been withdrawn during the tax year.

6 b. Add, to the extent not otherwise subject to state
7 income tax, earnings on a prepaid tuition savings account
8 which have been withdrawn during the tax year and not used for
9 tuition at an eligible higher education institution, as
10 defined in section 541B.1.

11 Sec. 2. NEW SECTION. 541B.1 PREPAID TUITION SAVINGS
12 ACCOUNT.

13 1. For purposes of this section, unless the context
14 otherwise requires:

15 a. "Account holder" means an individual who is the owner
16 of a prepaid tuition savings account.

17 b. "Eligible higher education institution" means an
18 accredited private institution as defined in section 261.9; a
19 community college as defined in section 260C.2; or an
20 institution governed by the state board of regents as
21 identified in section 262.7, subsection 1, 2, or 3.

22 c. "Financial institution" means any bank, savings and
23 loan, trust company, or other financial entity approved by the
24 superintendent of banking to offer prepaid tuition savings
25 accounts.

26 d. "Qualified higher education tuition expenses" means the
27 tuition, fees, books, supplies, and equipment required for
28 enrollment or attendance of an account holder at an eligible
29 higher education institution.

30 2. A financial instrument known as a prepaid tuition
31 savings account may be offered by a financial institution. A
32 prepaid tuition savings account shall have all of the
33 following characteristics:

34 a. The account is kept in the name of a single individual
35 account holder.

1 b. Contributions to the account shall only be made by the
2 account holder and the spouse and parents or guardian of the
3 account holder. Total contributions to an account in a
4 calendar year are limited to the amount determined under
5 subsection 3. Contributions or transfers shall not be made to
6 an account in the calendar year in which the account holder
7 reaches the age of thirty-four and one-half years old.

8 c. The account earns income or interest.

9 d. Contributions shall only be made in cash.

10 e. The investment of contributions to and earnings of the
11 account shall be directed by the financial institution and not
12 by any contributor or the account holder.

13 f. The account or any portion of the account shall not be
14 used as security for a loan.

15 g. The account holder shall not make withdrawals from the
16 account prior to the account holder's graduation from high
17 school or to attaining the age of eighteen and one-half years
18 old, whichever occurs first. Within six months of reaching
19 the age of thirty-four and one-half years old, the account
20 holder shall withdraw all funds in the account.

21 h. A civil penalty of ten percent of the amount withdrawn
22 is charged for any amounts withdrawn which are not any of the
23 following:

24 (1) Used for qualified higher education tuition expenses
25 of the account holder.

26 (2) Made on account of a nonathletic scholarship,
27 allowance, or payment. This subparagraph applies only to the
28 extent that the amount of withdrawal does not exceed the
29 amount of the nonathletic scholarship, allowance, or payment.

30 (3) Made on account of the death or disability of the
31 account holder.

32 (4) Made because of the age limitation in paragraph "g".

33 (5) Transferred to another prepaid tuition savings account
34 within six months of the withdrawal.

35 i. Withdrawals shall be considered taken from

1 contributions first and then from transfers from another
2 account and finally from earnings on the account.

3 3. Before establishing a prepaid tuition savings account,
4 the account holder or parent or guardian of the account holder
5 shall identify the eligible higher education institution which
6 the account holder will seek to attend. The financial
7 institution shall estimate the qualified higher education
8 tuition expenses and the amount that needs to be contributed
9 to the account each year to reach that amount. If
10 contributions are less than required in a particular year,
11 contributions may be increased in subsequent years to make up
12 for the shortfall.

13 In any year, a different eligible higher education
14 institution may be designated and the financial institution
15 shall recompute the yearly contribution amount and make
16 adjustments as necessary.

17 4. An individual may be an account holder of only one
18 prepaid tuition savings account.

19 5. The superintendent of banking shall certify a financial
20 instrument having the characteristics as specified in
21 subsection 2 as a prepaid tuition savings account.

22 6. The director of revenue and finance in cooperation with
23 the superintendent of banking shall adopt rules to administer
24 this chapter.

25 7. The identification of the eligible higher education
26 institution which the account holder seeks to attend and the
27 establishment of a prepaid tuition savings account do not
28 entitle or guarantee enrollment or admission at the identified
29 eligible higher education institution.

30 Sec. 3. This Act, being deemed of immediate importance,
31 takes effect upon enactment and applies retroactively to
32 January 1, 1997, for tax years beginning on or after January
33 1, 1997.

34 EXPLANATION

35 The bill establishes financial instruments known as prepaid

1 tuition savings accounts. These accounts may be offered by a
2 bank, savings and loan, trust company, or other financial
3 entity approved by the superintendent of banking. The purpose
4 of this account is to assist the owner of the account, known
5 as the account holder, in funding the cost of attending a
6 college or university within the state.

7 A prepaid tuition savings account has certain required
8 characteristics which include that the account is in the name
9 of a single individual; contributions may be made to the
10 account only by the account holder and the spouse and parents
11 or guardian of the account holder; the account earns income;
12 contributions are made in cash; the financial institution
13 directs the investments of the account; the moneys in the
14 account may not be used as security for a loan; contributions
15 to the account may not exceed the estimated amount needed to
16 pay the costs of attending a college or university in the
17 state in a calendar year; withdrawals by the account holder
18 may only be made between high school graduation or 18 and one-
19 half years old, whichever occurs first, and 34 and one-half
20 years old when all moneys in the account are to be withdrawn;
21 a 10 percent civil penalty for withdrawals not used for higher
22 education tuition expenses with a few exceptions. Earnings on
23 the accounts are not taxable until withdrawn.

24 The bill takes effect upon enactment and applies
25 retroactively to January 1, 1997, for tax years beginning on
26 or after that date.

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