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SENATE FILE 270
BY RIFE

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

A BILL FOR

1 An Act relating to establishing higher education savings accounts
2 to be used for higher education expenses, providing an income
3 tax deduction for contributions to the accounts and income tax
4 exemptions for earnings of the account until withdrawn, and
5 including an effective and retroactive applicability date
6 provision.

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

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S.F. 270

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 not
4 otherwise deducted, up to two thousand dollars contributed by
5 the individual or up to four thousand dollars contributed by
6 married persons filing jointly to each higher education
7 savings account, as certified pursuant to section 541B.1, in
8 the name of the taxpayer or the taxpayer's spouse or
9 dependent.

10 b. Subtract, to the extent included, earnings on a higher
11 education savings account unless the earnings are withdrawn
12 during the tax year.

13 c. Add, to the extent not otherwise subject to state
14 income tax, earnings on a higher education savings account
15 which have been withdrawn during the tax year.

16 Sec. 2. NEW SECTION. 541B.1 HIGHER EDUCATION SAVINGS
17 ACCOUNT.

18 1. For purposes of this section, unless the context
19 otherwise requires:

20 a. "Account holder" means an individual who is the owner
21 of a higher education savings account.

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

26 c. "Internal Revenue Code" means the same as defined in
27 section 422.3.

28 d. "Qualified higher education expenses" means the
29 tuition, fees, books, supplies, and equipment required for
30 enrollment or attendance of an account holder at an accredited
31 private institution as defined in section 261.9; a community
32 college as defined in section 260C.2; or an institution
33 governed by the state board of regents as defined in section
34 262.7, subsection 1, 2, or 3.

35 2. A financial instrument known as a higher education

1 savings account may be offered by a financial institution. A
2 higher education savings account shall have all of the
3 following characteristics:

4 a. The account is kept in the name of a single individual
5 account holder.

6 b. Contributions to the account shall only be made by the
7 account holder and the spouse and parents of the account
8 holder. Total contributions to an account in a calendar year
9 shall not exceed four thousand dollars. Interest and earnings
10 from moneys in the account and any transfers from another
11 higher education savings account are not subject to the
12 limitations in this paragraph. Contributions or transfers
13 shall not be made to an account in the calendar year in which
14 the account holder reaches the age of thirty and one-half
15 years old.

16 c. The account earns income.

17 d. Contributions shall only be made in cash.

18 e. The investment of contributions to and earnings of the
19 account shall be directed by the financial institution and not
20 by any contributor or the account holder.

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

23 g. The account holder shall not make withdrawals from the
24 account prior to the account holder's graduation from high
25 school or to attaining the age of eighteen and one-half years
26 old, whichever occurs first. Within six months of reaching
27 the age of thirty and one-half years old, the account holder
28 shall withdraw all funds in the account.

29 h. A civil penalty of ten percent of the amount withdrawn
30 is charged for any amounts withdrawn which are not any of the
31 following:

32 (1) Used for qualified higher education expenses of the
33 account holder.

34 (2) Made on account of a nonathletic scholarship,
35 allowance, or payment. This subparagraph applies only to the

1 extent that the amount of withdrawal does not exceed the
2 amount of the nonathletic scholarship, allowance, or payment.

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

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

6 (5) Transferred to another higher education savings
7 account within six months of the withdrawal.

8 i. Withdrawals shall be considered taken from
9 contributions first and then from transfers from another
10 account and finally from earnings on the account.

11 3. An individual may be an account holder of only one
12 higher education savings account.

13 4. The superintendent of banking shall certify a financial
14 instrument having the characteristics as specified in
15 subsection 2 as a higher education savings account.

16 5. The director of revenue and finance in cooperation with
17 the superintendent of banking shall adopt rules to administer
18 this chapter.

19 Sec. 3. This Act, being deemed of immediate importance,
20 takes effect upon enactment and applies retroactively to
21 January 1, 1997, for tax years beginning on or after January
22 1, 1997.

23 EXPLANATION

24 The bill establishes financial instruments known as higher
25 education savings accounts. These accounts may be offered by
26 a bank, savings and loan, trust company, or other financial
27 entity approved by the superintendent of banking. The purpose
28 of this account is to assist the owner of the account, known
29 as the account holder, in funding the cost of attending a
30 college or university within the state.

31 A higher education savings account has certain required
32 characteristics which include being in the name of a single
33 individual; limiting contributions to the account to the
34 account holder and the spouse and parents of the account
35 holder; the account earns income; contributions are made in

1 cash; the financial institution directs the investments of the
2 account; the moneys in the account may not be used as security
3 for a loan; contributions to the account may not exceed \$4,000
4 in a calendar year; withdrawals by the account holder may only
5 be made between high school graduation or 18 and one-half
6 years old, whichever occurs first and 30 and one-half years
7 old when all moneys in the account are to be withdrawn; a 10
8 percent civil penalty for withdrawals not used for higher
9 education expenses with a few exceptions.

10 The bill provides for an annual \$2,000 deduction for single
11 filers and \$4,000 for married joint filers for contributions
12 to each higher education savings account in the name of the
13 taxpayer or the taxpayer's spouse or dependents. Earnings on
14 the accounts are not taxable until withdrawn.

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

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