

FEB 13 2002
EDUCATION

HOUSE FILE 2308
BY HOVERSTEN

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

A BILL FOR

1 An Act providing for qualified state tuition program
2 modifications to maintain consistency with federal law
3 changes, and providing effective and applicability dates.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 2308

1 Section 1. Section 12D.1, subsection 6, Code 2001, is
2 amended to read as follows:

3 6. "Higher education costs" means the certified costs of
4 tuition, fees, books, supplies, and equipment required for
5 enrollment or attendance at an institution of higher
6 education. ~~Reasonable-room-and-board-expenses,-based-on-the~~
7 ~~minimum-amount-applicable-for-the-institution-of-higher~~
8 ~~education-during-the-period-of-enrollment,-shall-be-included~~
9 ~~as-a-higher-education-cost-for-those-students-enrolled-on-at~~
10 ~~least-a-half-time-basis.~~ Room and board expenses shall be
11 included as a higher education cost for those students
12 enrolled on at least a half-time basis in an amount applicable
13 to the student in calculating costs of attendance for federal
14 financial aid programs pursuant to section 472 of the federal
15 Higher Education Act of 1965, 20 U.S.C. § 1088, or for
16 students living in housing owned or operated by an institution
17 of higher education the actual amount, if greater, charged by
18 the institution for room and board. Expenses of a special
19 needs beneficiary which are necessary in connection with the
20 beneficiary's enrollment or attendance shall be considered a
21 higher education cost.

22 Sec. 2. Section 12D.1, subsection 13, Code 2001, is
23 amended by striking the subsection.

24 Sec. 3. Section 12D.2, subsection 15, Code 2001, is
25 amended to read as follows:

26 15. Establish, impose, and collect administrative fees and
27 charges in connection with transactions of the trust, and
28 provide for reasonable service charges, including penalties
29 for ~~cancellations-and~~ late payments with respect to
30 participation agreements.

31 Sec. 4. Section 12D.3, subsection 1, paragraph a, Code
32 2001, is amended to read as follows:

33 a. Each participation agreement may require a participant
34 to agree to invest a specific amount of money in the trust for
35 a specific period of time for the benefit of a specific

1 beneficiary. A participant shall not be required to make an
2 annual contribution on behalf of a beneficiary. The minimum
3 contribution per beneficiary per year, in a year in which a
4 participant is making a contribution, shall be fifty dollars.
5 The maximum contribution that may be deducted for Iowa income
6 tax purposes shall not exceed ~~two~~ three thousand dollars per
7 beneficiary per year adjusted annually to reflect increases in
8 the consumer price index. The treasurer of state shall set an
9 account balance limit to maintain compliance with section 529
10 of the Internal Revenue Code. A contribution shall not be
11 permitted to the extent it causes the aggregate balance of all
12 accounts established for the same beneficiary to exceed the
13 applicable account balance limit.

14 Sec. 5. Section 12D.3, subsection 3, Code 2001, is amended
15 to read as follows:

16 3. A participant's account balance shall be refunded to
17 the participant, less endowment fund earnings, ~~and less a~~
18 ~~refund penalty levied by the trust against account balance~~
19 ~~earnings, if any, in the event an account balance remains in~~
20 ~~the account for a thirty-day period following the~~
21 ~~beneficiary's thirtieth birthday.~~

22 Sec. 6. Section 12D.5, subsection 1, Code 2001, is amended
23 to read as follows:

24 ~~±~~ A participant may cancel a participation agreement at
25 will. Upon cancellation of a participation agreement, a
26 participant shall be entitled to the return of the
27 participant's account balance, less endowment fund investment
28 earnings, ~~and less a refund penalty levied by the trust~~
29 ~~against the participant's account balance earnings, if any.~~
30 ~~The penalty shall be deposited into the administrative fund.~~

31 Sec. 7. Section 12D.5, subsection 2, Code 2001, is amended
32 by striking the subsection.

33 Sec. 8. Section 12D.9, subsection 1, paragraph f, Code
34 2001, is amended by striking the paragraph.

35 Sec. 9. Section 422.7, Code Supplement 2001, is amended by

1 adding the following new subsection:

2 NEW SUBSECTION. 34A. For purposes of this subsection, a
3 "qualified tuition program" is a program which provides that
4 amounts contributed in exchange for tuition credits or
5 certificates at an eligible education institution are held in
6 a qualified trust, and which receives a ruling or
7 determination from the internal revenue service that the
8 program meets the requirements of section 529 of the Internal
9 Revenue Code.

10 a. Subtract the contribution to a qualified tuition
11 program up to the maximum amount that may be deducted for Iowa
12 income tax purposes pursuant to section 12D.3, subsection 1,
13 paragraph "a".

14 b. Add the amount resulting from the cancellation of a
15 participation agreement refunded to the taxpayer as a
16 participant in a qualified tuition program to the extent
17 previously deducted as a contribution to the program.

18 c. Subtract, to the extent included, income from interest
19 and earnings received from the qualified tuition program.

20 Sec. 10. EFFECTIVE AND APPLICABILITY DATES. This Act,
21 being deemed of immediate importance, takes effect upon
22 enactment and applies retroactively to January 1, 2002, for
23 tax years beginning on or after that date.

24 EXPLANATION

25 This bill provides for qualified state tuition program
26 modifications to maintain consistency with federal law
27 changes.

28 The bill provides that higher education costs shall include
29 room and board expenses in an amount applicable to the student
30 in calculating costs of attendance for federal financial aid
31 programs pursuant to section 472 of the federal Higher
32 Education Act of 1965, 20 U.S.C. § 1088, or, for students
33 living in housing owned or operated by an institution of
34 higher education, the actual amount, if greater, charged by
35 the institution for room and board. Formerly, reasonable room

1 and board expenses based on the minimum amount applicable for
2 an institution of higher education were permitted. The bill
3 also adds expenses of a special needs beneficiary which are
4 necessary in connection with the beneficiary's enrollment or
5 attendance as a higher education cost.

6 The bill provides for an increase in the maximum
7 contribution which is deductible for Iowa income tax purposes
8 from \$2,000 to \$3,000 per beneficiary per year.

9 The bill provides that a refund penalty formerly applicable
10 upon cancellation of a participation agreement shall not be
11 levied.

12 The bill provides that the provisions applicable to the
13 education savings plan trust regarding contributions to and
14 interest and earnings from the trust for Iowa income tax
15 purposes shall also apply with regard to a qualified tuition
16 program. The bill provides that a "qualified tuition program"
17 is a program providing that amounts contributed in exchange
18 for tuition credits or certificates at an eligible education
19 institution are held in a qualified trust, and which receives
20 a ruling or determination from the internal revenue service
21 that the program meets the requirements of section 529 of the
22 Internal Revenue Code.

23 The bill takes effect upon enactment and applies
24 retroactively to January 1, 2002, for tax years beginning on
25 or after that date.

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