
By: **Delegates Shriver and Taylor**

Introduced and read first time: February 24, 1999

Assigned to: Rules and Executive Nominations

A BILL ENTITLED

1 AN ACT concerning

2 **Maryland College Tuition Savings Plan**

3 FOR the purpose of establishing the Maryland College Tuition Savings Plan as a
4 method to allow individuals to make contributions to certain accounts for the
5 purposes of meeting certain higher education expenses; providing that neither
6 the faith and credit nor the taxing power of the State is pledged to the payment
7 of debts, contracts, and obligations of the college savings plan; providing for the
8 administration of the college savings plan by the Board of the Maryland Higher
9 Education Investment Program; requiring the Board to maintain the college
10 savings plan in compliance with Internal Revenue Service standards for
11 qualified state tuition programs; providing that distributions from the college
12 savings plan may be used only for certain qualified higher education expenses;
13 authorizing the Board to adopt certain regulations and requiring the Board to
14 adopt certain regulations; requiring the Board to issue certain statements to
15 participants at least annually; providing that the assets and income of the
16 college savings plan are exempt from State and local taxation; requiring an
17 annual audit of the college savings plan; requiring the Board to report to the
18 Governor and General Assembly annually concerning the audit and certain
19 matters concerning the college savings plan; providing a subtraction
20 modification under the Maryland income tax for certain contributions to an
21 account under the Maryland College Tuition Savings Plan, subject to a certain
22 limitation; allowing certain amounts disallowed under the subtraction
23 modification as a result of a certain limitation to be carried over and subtracted
24 for succeeding taxable years; providing an addition modification for certain
25 distributions made under the Maryland College Tuition Savings Plan, subject to
26 a certain limitation; providing for the application of this Act; and generally
27 relating to the establishment of the Maryland College Tuition Savings Plan as a
28 method to allow individuals to make contributions to certain accounts for the
29 purposes of meeting certain higher education expenses.

30 BY adding to

31 Article - Education

32 Section 18-19A-01 through 18-19A-07 to be under the new subtitle "Subtitle

33 19A. Maryland College Tuition Savings Plan"

34 Annotated Code of Maryland

1 (1997 Replacement Volume and 1998 Supplement)

2 BY repealing and reenacting, without amendments,
3 Article - Tax - General
4 Section 10-205(a) and 10-208(a)
5 Annotated Code of Maryland
6 (1997 Replacement Volume and 1998 Supplement)

7 BY adding to
8 Article - Tax - General
9 Section 10-205(i) and 10-208(o)
10 Annotated Code of Maryland
11 (1997 Replacement Volume and 1998 Supplement)

12 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
13 MARYLAND, That the Laws of Maryland read as follows:

14 **Article - Education**

15 SUBTITLE 19A. MARYLAND COLLEGE TUITION SAVINGS PLAN.

16 18-19A-01.

17 (A) IN THIS SUBTITLE THE FOLLOWING WORDS HAVE THE MEANINGS
18 INDICATED.

19 (B) "BOARD" MEANS THE BOARD OF THE MARYLAND HIGHER EDUCATION
20 INVESTMENT PROGRAM ESTABLISHED UNDER § 18-1904 OF THIS TITLE.

21 (C) "COLLEGE SAVINGS PLAN" MEANS THE MARYLAND COLLEGE TUITION
22 SAVINGS PLAN ESTABLISHED UNDER THIS SUBTITLE.

23 (D) "DESIGNATED BENEFICIARY" HAS THE MEANING STATED IN § 529(E) OF
24 THE INTERNAL REVENUE CODE.

25 (E) "ELIGIBLE EDUCATIONAL INSTITUTION" HAS THE MEANING STATED IN §
26 529(E) OF THE INTERNAL REVENUE CODE.

27 (F) "QUALIFIED HIGHER EDUCATION EXPENSES" HAS THE MEANING STATED
28 IN § 529(E) OF THE INTERNAL REVENUE CODE.

29 18-19A-02.

30 (A) THERE IS A MARYLAND COLLEGE TUITION SAVINGS PLAN.

31 (B) THE PURPOSE OF THE COLLEGE SAVINGS PLAN IS TO ALLOW
32 INDIVIDUALS TO MAKE CONTRIBUTIONS TO AN ACCOUNT ESTABLISHED FOR THE

1 PURPOSES OF MEETING THE QUALIFIED HIGHER EDUCATION EXPENSES OF THE
2 DESIGNATED BENEFICIARY OF THE ACCOUNT.

3 (C) (1) THE BOARD SHALL ADMINISTER, MANAGE, PROMOTE, AND MARKET
4 THE COLLEGE SAVINGS PLAN.

5 (2) THE BOARD SHALL MAINTAIN THE COLLEGE SAVINGS PLAN IN
6 COMPLIANCE WITH INTERNAL REVENUE SERVICE STANDARDS FOR QUALIFIED
7 STATE TUITION PROGRAMS.

8 (D) THE BOARD MAY ADOPT ANY REGULATIONS THAT THE BOARD CONSIDERS
9 NECESSARY TO CARRY OUT THE PROVISIONS OF THIS SUBTITLE.

10 (E) THE BOARD SHALL ADOPT REGULATIONS RELATING TO:

11 (1) APPLICATION PROCEDURES AND FEES FOR PARTICIPATION IN THE
12 COLLEGE SAVINGS PLAN;

13 (2) START-UP COSTS FOR THE COLLEGE SAVINGS PLAN, WITH ANY
14 COSTS INCURRED BY THE STATE FOR THE DEVELOPMENT OF THE COLLEGE SAVINGS
15 PLAN REIMBURSED TO THE STATE BY THE COLLEGE SAVINGS PLAN;

16 (3) PHASING IN THE COLLEGE SAVINGS PLAN AND WITHDRAWALS FROM
17 THE COLLEGE SAVINGS PLAN, SO THAT ANY POLICIES RELATIVE TO EARLY
18 WITHDRAWAL WILL NOT DETRIMENTALLY AFFECT INVESTORS REMAINING IN THE
19 COLLEGE SAVINGS PLAN;

20 (4) PENALTIES FOR REFUNDS OF EARNINGS FROM THE COLLEGE
21 SAVINGS PLAN THAT ARE NOT:

22 (I) USED FOR QUALIFIED HIGHER EDUCATION EXPENSES OF THE
23 DESIGNATED BENEFICIARY;

24 (II) MADE ON ACCOUNT OF THE DEATH OR DISABILITY OF THE
25 DESIGNATED BENEFICIARY; OR

26 (III) MADE ON ACCOUNT OF A SCHOLARSHIP OR ALLOWANCE OR
27 PAYMENT DESCRIBED IN § 135(D)(1)(B) OR (C) OF THE INTERNAL REVENUE CODE
28 RECEIVED BY THE DESIGNATED BENEFICIARY TO THE EXTENT THE AMOUNT OF THE
29 REFUND DOES NOT EXCEED THE AMOUNT OF THE SCHOLARSHIP, ALLOWANCE, OR
30 PAYMENT;

31 (5) DETERRENENTS TO EARLY WITHDRAWALS AND PROVISIONS FOR
32 HARDSHIP WITHDRAWALS;

33 (6) DEFERRED USE OF FUNDS FROM THE COLLEGE SAVINGS PLAN AND
34 NOTIFICATION REQUIREMENTS FOR DEFERRALS; AND

35 (7) REENROLLMENT IN THE COLLEGE SAVINGS PLAN AFTER
36 WITHDRAWAL.

1 (F) AT LEAST ANNUALLY, THE BOARD SHALL ISSUE TO EACH PARTICIPANT IN
2 THE COLLEGE SAVINGS PLAN A STATEMENT THAT PROVIDES A SEPARATE
3 ACCOUNTING FOR EACH DESIGNATED BENEFICIARY PROVIDING THE BEGINNING
4 BALANCE AND CONTRIBUTIONS AND EARNINGS CREDITED TO THE PARTICIPANT'S
5 ACCOUNT DURING THE PREVIOUS FISCAL YEAR.

6 18-19A-03.

7 (A) (1) THE BOARD SHALL ISSUE REQUESTS FOR PROPOSALS TO EVALUATE
8 AND DETERMINE THE VEHICLE FOR INVESTMENTS OF THE COLLEGE SAVINGS PLAN
9 AND ITS ADMINISTRATION.

10 (2) THE BOARD SHALL CONSIDER AND, IF APPROPRIATE, GIVE
11 PREFERENCE TO PROPOSALS BEST MEETING THE FOLLOWING CRITERIA:

12 (I) ABILITY TO ADMINISTER FINANCIAL PROGRAMS WITH
13 INDIVIDUAL ACCOUNT MAINTENANCE AND REPORTING;

14 (II) ABILITY TO DEVELOP AND ADMINISTER AN INVESTMENT
15 PROGRAM OF A NATURE SIMILAR TO THE OBJECTIVES OF THE COLLEGE SAVINGS
16 PLAN; AND

17 (III) ABILITY TO AUGMENT THE COLLEGE SAVINGS PLAN WITH
18 OTHER PROGRAMS OR INFORMATIONAL SERVICES CONSIDERED BENEFICIAL BY THE
19 BOARD.

20 (3) THE BOARD SHALL SELECT THE VEHICLE FOR INVESTMENTS OF THE
21 COLLEGE SAVINGS PLAN AND ITS ADMINISTRATION FROM AMONG THE PROPOSALS
22 SUBMITTED.

23 (B) (1) THE BOARD SHALL REQUIRE AN INITIAL APPLICATION FEE TO BE
24 USED FOR ADMINISTRATIVE COSTS OF THE COLLEGE SAVINGS PLAN.

25 (2) THE BOARD SHALL DETERMINE AND MAKE RECOMMENDATIONS
26 REGARDING THE USE OF PERSONNEL IN THE STATE TREASURER'S OFFICE WITH
27 COSTS FOR ANY ADMINISTRATIVE SUPPORT FROM THE STATE TREASURER'S OFFICE
28 TO BE FUNDED FROM THE COLLEGE SAVINGS PLAN.

29 (C) (1) CONTRIBUTIONS TO THE COLLEGE SAVINGS PLAN MAY BE MADE
30 ONLY IN CASH.

31 (2) THE COLLEGE SAVINGS PLAN SHALL INCLUDE PROVISIONS FOR
32 AUTOMATIC DEDUCTIONS.

33 (D) (1) THE COLLEGE SAVINGS PLAN:

34 (I) SHALL BE ESTABLISHED IN THE FORM DETERMINED BY THE
35 BOARD; AND

1 (II) MAY BE ESTABLISHED AS A TRUST TO BE DECLARED BY THE
2 STATE TREASURER.

3 (2) THE COLLEGE SAVINGS PLAN OR THE TRUST MAY BE DIVIDED INTO
4 MULTIPLE INVESTMENT PORTFOLIOS.

5 (3) IF THE COLLEGE SAVINGS PLAN OR THE TRUST IS DIVIDED INTO
6 MULTIPLE PORTFOLIOS AS PROVIDED IN PARAGRAPH (2) OF THIS SUBSECTION, THE
7 DEBTS, LIABILITIES, OBLIGATIONS, AND EXPENSES INCURRED, CONTRACTED FOR,
8 OR OTHERWISE EXISTING WITH RESPECT TO A PARTICULAR PORTFOLIO SHALL BE
9 ENFORCEABLE AGAINST THE ASSETS OF THAT PORTFOLIO ONLY AND NOT AGAINST
10 THE ASSETS OF THE TRUST GENERALLY, IF:

11 (I) DISTINCT RECORDS ARE MAINTAINED FOR EACH PORTFOLIO;
12 AND

13 (II) THE ASSETS ASSOCIATED WITH EACH PORTFOLIO ARE
14 ACCOUNTED FOR SEPARATELY FROM THE OTHER ASSETS OF THE COLLEGE SAVINGS
15 PLAN OR TRUST.

16 18-19A-04.

17 (A) A RESIDENT OR NONRESIDENT MAY PARTICIPATE IN AND BENEFIT FROM
18 THE COLLEGE SAVINGS PLAN.

19 (B) DISTRIBUTIONS FROM THE COLLEGE SAVINGS PLAN MAY BE USED ONLY
20 FOR QUALIFIED EDUCATIONAL EXPENSES.

21 (C) (1) A PARTICIPANT IN THE COLLEGE SAVINGS PLAN MAY DEFER USE OF
22 THE FUNDS IN THE PLAN UNTIL THOSE FUNDS ARE NEEDED.

23 (2) A PARTICIPANT SHALL NOTIFY THE BOARD OF ANY DEFERRAL OF
24 USE OF FUNDS IN THE MANNER THAT THE BOARD REQUIRES.

25 (D) REFUNDS SHALL BE DISBURSED TO THE DESIGNATED BENEFICIARY OF
26 THE COLLEGE SAVINGS PLAN.

27 18-19A-05.

28 (A) (1) THE DEBTS, CONTRACTS, AND OBLIGATIONS OF THE COLLEGE
29 SAVINGS PLAN ARE NOT THE CONTRACTS, DEBTS, OR OBLIGATIONS OF THE STATE
30 AND NEITHER THE FAITH AND CREDIT NOR TAXING POWER OF THE STATE IS
31 PLEDGED DIRECTLY OR INDIRECTLY OR CONTINGENTLY, MORALLY OR OTHERWISE,
32 TO THE PAYMENT OF THE DEBTS, CONTRACTS, AND OBLIGATIONS OF THE COLLEGE
33 SAVINGS PLAN.

34 (2) THE BOARD CANNOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY
35 OBLIGATE, MORALLY OR OTHERWISE, THE STATE TO LEVY OR PLEDGE ANY FORM OF
36 TAXATION WHATSOEVER FOR THE DEBTS AND OBLIGATIONS OF THE COLLEGE

1 SAVINGS PLAN OR TO MAKE ANY APPROPRIATION FOR THE PAYMENT OF THE DEBTS
2 AND OBLIGATIONS OF THE COLLEGE SAVINGS PLAN.

3 (B) NEITHER THE STATE NOR ANY ELIGIBLE EDUCATIONAL INSTITUTION
4 SHALL BE LIABLE FOR ANY SHORTAGE OF FUNDS IN THE EVENT THAT THE
5 ACCRUALS FROM THE COLLEGE SAVINGS PLAN ARE INSUFFICIENT TO MEET THE
6 TUITION REQUIREMENTS OF AN INSTITUTION CHOSEN BY THE DESIGNATED
7 BENEFICIARY.

8 18-19A-06.

9 THE ASSETS AND INCOME OF THE COLLEGE SAVINGS PLAN ARE EXEMPT FROM
10 STATE AND LOCAL TAXATION.

11 18-19A-07.

12 (A) (1) THE LEGISLATIVE AUDITOR SHALL AUDIT THE COLLEGE SAVINGS
13 PLAN ANNUALLY.

14 (2) THE BOARD SHALL PAY FOR THE AUDIT.

15 (B) (1) WITHIN 90 DAYS AFTER THE CLOSE OF EACH FISCAL YEAR, THE
16 BOARD SHALL SUBMIT TO THE GOVERNOR AND, SUBJECT TO § 2-1246 OF THE STATE
17 GOVERNMENT ARTICLE, TO THE GENERAL ASSEMBLY A REPORT INCLUDING:

18 (I) THE LEGISLATIVE AUDIT;

19 (II) A FINANCIAL ACCOUNTING OF THE COLLEGE SAVINGS PLAN,
20 INCLUDING:

21 1. AN ANNUAL REVIEW OF THE INVESTMENT PROGRAM OF
22 THE COLLEGE SAVINGS PLAN WHICH SHALL INCLUDE:

23 A. THE STATUS OF THE INVESTMENT PROGRAM;

24 B. THE ASSETS HELD IN EACH CLASS OF INVESTMENT, THE
25 AMOUNT OF FUNDS HELD IN ANY CASH POOL, THE AMOUNT OF FUNDS HELD IN
26 FIXED ASSETS INVESTMENTS, AND THE AMOUNT OF FUNDS HELD IN EQUITY
27 INVESTMENTS;

28 C. THE PERCENTAGE AND DOLLAR VALUE OF ASSETS
29 PLACED WITH OUTSIDE MANAGERS;

30 D. THE INCOME PRODUCED BY EACH CLASS OF
31 INVESTMENT; AND

32 E. THE INCOME PRODUCED BY EACH INVESTMENT
33 MANAGER; AND

34 2. A DETAILED ACCOUNT OF THE OPERATING AND
35 ADMINISTRATIVE BUDGET FOR THE COLLEGE SAVINGS PLAN, WHICH SHALL

1 INCLUDE A COMPLETE LIST OF REVENUE SOURCES AND EXPENDITURES DETAILING
2 THE LINE ITEM EXPENDITURES FOR:

3 A. SALARIES, WAGES, AND FRINGE BENEFITS;

4 B. TECHNICAL AND SPECIAL FEES;

5 C. COMMUNICATION;

6 D. TRAVEL;

7 E. CONTRACTUAL SERVICES;

8 F. SUPPLIES AND MATERIALS;

9 G. EQUIPMENT;

10 H. FIXED CHARGES; AND

11 I. OTHER EXPENSES;

12 (III) THE NUMBER OF NEW PARTICIPANTS IN THE COLLEGE
13 SAVINGS PLAN DURING THE PREVIOUS FISCAL YEAR;

14 (IV) EFFORTS BY THE BOARD IN MARKETING THE COLLEGE
15 SAVINGS PLAN; AND

16 (V) ANY RECOMMENDATIONS OF THE BOARD CONCERNING THE
17 OPERATION OF THE COLLEGE SAVINGS PLAN.

18 (2) THE BOARD SHALL MAKE AVAILABLE TO EACH PARTICIPANT IN THE
19 COLLEGE SAVINGS PLAN A COPY OF A SUMMARY OF THE REPORT AND THE OPTION
20 TO PURCHASE THE FULL REPORT AT A NOMINAL CHARGE.

21 **Article - Tax - General**

22 10-205.

23 (a) In addition to the modification under § 10-204 of this title, the amounts
24 under this section are added to the federal adjusted gross income of a resident to
25 determine Maryland adjusted gross income.

26 (I) (1) IN THIS SUBSECTION, "DESIGNATED BENEFICIARY" AND "QUALIFIED
27 HIGHER EDUCATION EXPENSES" HAVE THE MEANINGS STATED IN § 18-19A-01 OF
28 THE EDUCATION ARTICLE.

29 (2) THE ADDITION UNDER SUBSECTION (A) OF THIS SECTION INCLUDES
30 THE AMOUNT OF ANY DISTRIBUTION RECEIVED BY AN INDIVIDUAL IN THE TAXABLE
31 YEAR FROM AN ACCOUNT UNDER THE MARYLAND COLLEGE TUITION SAVINGS PLAN
32 TO THE EXTENT DISTRIBUTION IS NOT USED ON BEHALF OF THE DESIGNATED
33 BENEFICIARY FOR QUALIFIED HIGHER EDUCATION EXPENSES.

1 (3) THE AMOUNT OF THE ADDITION REQUIRED UNDER THIS
2 SUBSECTION SHALL BE REDUCED BY ANY AMOUNT INCLUDED IN THE INDIVIDUAL'S
3 FEDERAL ADJUSTED GROSS INCOME AS A RESULT OF THE DISTRIBUTION.

4 (4) THE CUMULATIVE AMOUNT OF THE ADDITION UNDER THIS
5 SUBSECTION FOR THE TAXABLE YEAR AND ALL PRIOR TAXABLE YEARS MAY NOT
6 EXCEED THE CUMULATIVE AMOUNT ALLOWED AS A SUBTRACTION UNDER §
7 10-208(O) OF THIS SUBTITLE FOR THE TAXABLE YEAR AND ALL PRIOR TAXABLE
8 YEARS FOR THE INDIVIDUAL'S CONTRIBUTIONS TO THE ACCOUNT FROM WHICH THE
9 DISTRIBUTION IS RECEIVED.

10 10-208.

11 (a) In addition to the modification under § 10-207 of this subtitle, the
12 amounts under this section are subtracted from the federal adjusted gross income of
13 a resident to determine Maryland adjusted gross income.

14 (O) (1) IN THIS SUBSECTION, "DESIGNATED BENEFICIARY" HAS THE
15 MEANING STATED IN § 18-19A-01 OF THE EDUCATION ARTICLE.

16 (2) THE SUBTRACTION UNDER SUBSECTION (A) OF THIS SECTION
17 INCLUDES THE AMOUNT CONTRIBUTED BY AN INDIVIDUAL DURING THE TAXABLE
18 YEAR TO AN ACCOUNT UNDER THE MARYLAND COLLEGE TUITION SAVINGS PLAN.

19 (3) SUBJECT TO PARAGRAPH (4) OF THIS SUBSECTION, FOR EACH
20 DESIGNATED BENEFICIARY, THE SUBTRACTION UNDER PARAGRAPH (2) OF THIS
21 SUBSECTION MAY NOT EXCEED \$2,500 FOR ANY TAXABLE YEAR.

22 (4) THE AMOUNT DISALLOWED AS A SUBTRACTION UNDER THIS
23 SUBSECTION FOR ANY TAXABLE YEAR AS A RESULT OF THE LIMITATION UNDER
24 PARAGRAPH (3) OF THIS SUBSECTION SHALL BE TREATED AS HAVING BEEN
25 CONTRIBUTED IN THE NEXT SUCCEEDING TAXABLE YEAR AND, SUBJECT TO THE
26 \$2,500 ANNUAL LIMITATION FOR EACH DESIGNATED BENEFICIARY, MAY BE CARRIED
27 OVER TO SUCCEEDING TAXABLE YEARS UNTIL THE FULL AMOUNT OF THE
28 CONTRIBUTION HAS BEEN ALLOWED AS A SUBTRACTION.

29 SECTION 2. AND BE IT FURTHER ENACTED, That §§ 10-205(i) and
30 10-208(o) of the Tax - General Article as enacted under this Act shall be applicable to
31 all taxable years beginning after December 31, 1998.

32 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect
33 July 1, 1999.