

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 1248

(Chair, Appropriations Committee) (By Request –
Departmental – College Savings Plans of Maryland)

Appropriations

Budget and Taxation

Maryland Prepaid College Trust - Refunds - Early Graduation from College

This departmental bill provides that a refund from the Maryland Prepaid College Trust for a student who graduates early from college is subject to a distribution tax.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: The bill would not materially impact participation in the Maryland Prepaid College Trust or State tax revenues.

Local Effect: None.

Small Business Effect: The College Savings Plans of Maryland Board has determined that this bill has minimal or no impact on small businesses. Legislative Services concurs with this assessment.

Analysis

Current Law: A refund equal to the benefits provided by a prepaid college savings contract, minus any amount paid on behalf of the beneficiary and for reasonable administrative charges, must be made if a beneficiary graduates from college early. Full refunds must also be made if a beneficiary is awarded a scholarship or tuition remission that covers benefits provided under a contract or if a beneficiary dies or suffers from a

disability that prevents the beneficiary from attending an institution of higher education. Any other refunds are subject to a 10% federal distribution tax.

Background: The College Savings Plans of Maryland Board advises that the bill aligns State law to the federal laws that govern college savings plans. Under federal regulations for the plans, early graduation from college does not entitle the holder of a college savings plan to a full refund of the remaining amount. Unused moneys are refunded, but a 10% distribution tax is applied to the refund amount.

The board advises that no one has requested this refund yet, but the board would like to ensure that State and federal laws are consistent before this does occur.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): College Savings Plans of Maryland, Department of Legislative Services

Fiscal Note History: First Reader - March 21, 2007
ncs/rhh

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