Legislative Analysis

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529 AND 529A PLAN TAX DEDUCTIONS

House Bill 4747 as reported from committee
Sponsor: Rep. Mark Tisdel
Committee: Finance
Complete to 10-21-25

SUMMARY:

House Bill 4747 would amend the Income Tax Act to allow taxpayers who file an individual income tax return to deduct contributions to a 529 education savings account or ABLE accounts based in another state from their taxable income.

Currently, the act allows taxpayers to deduct from their taxable income contributions, minus any qualified withdrawals, to an education savings account under the Michigan Education Savings Program Act or ABLE savings accounts under the Michigan Achieving a Better Life Experience (MiABLE) Program Act, up to a maximum of $5,000 (or $10,000 for joint returns) for each program, to the extent the contributions are included in adjusted gross income as determined by federal tax law. In addition, any non-qualified withdrawals from these accounts that exceed the above deduction are added to a taxpayer's taxable income, to the extent not included in adjusted gross income. However, non-qualified withdrawals are not added to taxable income if they are less than the sum of all contributions made in all previous tax years for which no deduction was claimed.

Under the bill, beginning January 1, 2026, taxpayers could also deduct contributions, to the extent included in federal adjusted gross income, to any qualified tuition program or any qualified ABLE program established and maintained by another state or agency, or any of their instrumentalities, under section 529 or 529a of the federal Internal Revenue Code, minus any distributions from the account not subject to a penalty or excise tax. The deduction would be capped at $5,000 for single returns or $10,000 for joint returns for each type of account.

Like Michigan based accounts, as described above, any withdrawals that were subject to a penalty or an excise tax under a section 529 or 529a program qualified for deductions under the bill would be added to a taxpayer's taxable income. Again, this provision would not apply if the withdrawals were less than the sum of all contributions made in all previous tax years for which no deduction was claimed.

MCL 206.30

BACKGROUND AND DISCUSSION:

Michigan Education Savings Program plans[1] are the state's versions of college savings plans allowed under section 529 of the federal Internal Revenue Code (and are often called 529 plans). These plans offer various advantages, such as tax-deferred contributions, to encourage

[1] https://www.michigan.gov/setwithmet/mi-529

saving for higher education. MiABLE accounts provide similar benefits to assist disabled individuals and their families cover qualified disability expenses.[2]

The bill's supporters argue, that by creating parity with other state's accounts, the bill would empower taxpayers to take advantage of whichever account is best for them, regardless of whether it is housed in Michigan.

FISCAL IMPACT:

House Bill 4747 would reduce income tax revenue by expanding the deduction for 529 donations to out-of-state account contributions (also called "tax parity" treatment for 529 plans). Based on limited information available from the nine existing 529 plan tax-parity states and existing data available on the existing income tax deduction for contributions to Michigan college savings plans, it is estimated that expanding the income tax deduction to include contributions to out-of-state plans would reduce income tax revenues by between $5.0 million and $10.0 million annually.

To the extent that the reduction is realized through gross income tax collections (withholding, estimated payments, and annual payments), the School Aid Fund would absorb about 23.8% of the impact, with the rest coming from the general fund. If the reduction is a result of higher refunds, the impact would be borne by the general fund.

POSITIONS:

A representative of the Securities Industry and Financial Markets Association testified in support of the bill. (9-9-25)

The Department of Treasury indicated opposition to the bill. (9-16-25)

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations and does not constitute an official statement of legislative intent.

[2] https://www.michigan.gov/miable/frequently-asked-questions