

Stricken language would be deleted from and underlined language would be added to the law as it existed prior to this session of the General Assembly.

INTERIM STUDY PROPOSAL 2007-034

State of Arkansas
86th General Assembly
Regular Session, 2007

A Bill

HOUSE BILL 1418

By: Representatives Hyde, Anderson, Hall, Key, Reynolds, Rosenbaum
By: Senators Baker, Salmon, Trusty

Referred to
Revenue & Taxation- House
by the House of Representatives
on 03/19/2007

For An Act To Be Entitled

AN ACT TO CLARIFY THAT CONTRIBUTIONS TO A TAX-
DEFERRED TUITION SAVINGS PROGRAM ARE DEDUCTIBLE
FROM ARKANSAS INCOME TAX; AND FOR OTHER PURPOSES.

Subtitle

AN ACT TO CLARIFY THAT CONTRIBUTIONS TO
A TAX-DEFERRED TUITION SAVINGS PROGRAM
ARE DEDUCTIBLE FROM ARKANSAS INCOME TAX.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

SECTION 1. Arkansas Code § 6-84-111 is amended to read as follows:
6-84-111. Funds exempt from tax.

(a) Except as otherwise indicated in this chapter, interest,
dividends, contributions, and capital gains from funds invested in the
Arkansas Tax-Deferred Tuition Savings Program or a tax-deferred tuition
savings program established by another state under 26 U.S.C. § 529 as in
effect on January 1, ~~2005~~ 2007, shall be exempt from Arkansas income taxes.

(b)(1) For tax years beginning on or after January 1, ~~2005~~ 2007,
contributions to a tuition savings account established under this program may
be deducted from the taxpayer's adjusted gross income for the purpose of

1 calculating Arkansas income tax under § 26-51-403(b).

2 (2) The deductible contributions shall not exceed five thousand
3 dollars (\$5,000) per taxpayer in any tax year.

4 (3) Contributions to this program that have been deducted from
5 the taxpayer's adjusted gross income for prior tax years shall be subject to
6 recapture if the taxpayer-

7 (A) ~~Makes~~ makes a subsequent nonqualified withdrawal from
8 the account; ~~or,~~

9 (B) ~~Rolls the account over to a tax-deferred tuition~~
10 ~~savings program established by another state or institution under 26 U.S.C. §~~
11 ~~529 as in effect on January 1, 2005.~~

12 (4) The contribution shall be recaptured by adding the amount
13 previously deducted, not to exceed the amount of the nonqualified withdrawal
14 or rollover, to the taxpayer's adjusted gross income for the tax year in
15 which the nonqualified withdrawal or rollover occurred.

16 (c)(1) Qualified withdrawals from a tuition savings account
17 established under this program or a tax-deferred tuition savings program
18 established by another state under 26 U.S.C. § 529 as in effect on January 1,
19 ~~2005~~2007, will be exempt from Arkansas income tax with respect to the
20 designated beneficiary's income.

21 (2)(A) Nonqualified withdrawals from a tuition savings account
22 established under this program or a tax-deferred tuition savings program
23 established by another state under 26 U.S.C. § 529 as in effect on January 1,
24 ~~2005~~2007, will be subject to Arkansas income tax.

25 (B) The nonqualified withdrawal will be taxable to the
26 party, account owner, or designated beneficiary who actually makes the
27 withdrawal.

28 (d) Any earnings on the contribution that are included in the refund
29 will be subject to Arkansas income tax if an account owner receives a refund
30 of contributions to a tuition savings account established under this program
31 or a tax-deferred tuition savings program established by another state under
32 26 U.S.C. § 529 as in effect on January 1, ~~2005~~ 2007, because of either:

33 (1) The death or disability of the designated beneficiary; or

34 (2) A scholarship, allowance, or payment described in 26 U.S.C.
35 § 135(d)(1)(B) or (C) as in effect on January 1, ~~2005~~ 2007, received by the
36 designated beneficiary.

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SECTION 2. Arkansas Code § 26-51-403(b)(17), concerning the calculation of adjusted gross income for Arkansas income tax purposes, is amended to read as follows:

(17) Deductions for contributions to the Arkansas Tax-Deferred Tuition Savings Program or a tax-deferred tuition savings program established by another state under 26 U.S.C. § 529 as in effect on January 1, 2007, not to exceed five thousand dollars (\$5,000) per taxpayer under § 6-84-111(b).

SECTION 3. Effective Date. This act is effective for tax years beginning January 1, 2007.

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