true?

SENATOR D. PEDERSON: The way that this bill is structured, the money that goes in, you're correct. That is the deduction for state income tax. But then the monies stay in an account similar to an IRA-type account. So it's accruing income. But that income is not taxable until it's withdrawn. Under current law, it's then taxed at the rate of the participant, or the beneficiary.

SENATOR RAIKES: So is...I understand that. The earnings are tax deferred. But is it the case then that the earnings are taxed at the state level when they come out? I know they're taxed at the federal level. But are they taxed at the state level when they come out?

SENATOR D. PEDERSON: It's my under...excuse me just a minute. It's not affected by this particular bill. But in last year's bill, we did exempt it as it's coming out, as far as state taxes are concerned.

SENATOR RAIKES: Okay. So the first $1,000 of contributions is not taxed. And then all earnings on the account are not taxed at the state level.

SENATOR D. PEDERSON: At the state level, right.

SENATOR RAIKES: They would be taxed at the federal level. Okay. Well, the question...the real question I had for you, deleting the minimum and taking off age requirements, does that increase the possibility that someone may use this sort of account, rather than for providing education for someone, to avoid paying income tax on some money, state income tax?

SENATOR D. PEDERSON: Well, this has...the money has to go for education purposes. The only deviation is, if it's withdrawn by the person who set up the account and used for some other purpose, they have to pay some serious penalties for doing that.

SENATOR RAIKES: Okay. So there are penalties to protect against...