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GOVERNOR

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GARY S. SUGANUMA
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DEPUTY DIRECTOR

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TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:
S.B. No. 281, S.D. 1, Relating to The College Savings Program

BEFORE THE:
Senate Committee on Ways and Means

DATE:	Wednesday, February 15, 2023
TIME:	10:30 a.m.
LOCATION:	State Capitol, Room 211

Chair Dela Cruz, Vice-Chair Keith-Agaran, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding S.B. 281, S.D. 1, for your consideration.

S.B. 281, S.D. 1, creates a deduction from income tax for contributions made to any college savings program established pursuant to section 529 of the Internal Revenue Code (IRC). The deductions are capped at $4,000 for single and married couples filing separate returns and $8,000 for married filing joint returns, heads of household, and surviving spouses. Additionally, the taxpayer's adjusted gross income must be less than the unspecified amount. Rollovers from one state's college savings programs into another state's college savings program are not eligible for the tax deduction. The measure provides that if the deduction exceeds the taxpayer's tax liability, the remaining credit may be carried forward for up to four years until exhausted. The bill applies to taxable years beginning after an unspecified date.

First, the Department notes that the contributions to accounts established pursuant to section 529, IRC, grow tax free, and qualifying distributions from the account are not subject to tax. The bill will add another tax benefit to college savings program accounts by making the contribution deductible from Hawai'i adjusted gross income.

Second, because the bill imposes limits on adjusted gross income, the Department recommends that married couples be required to file joint returns. This will help to avoid inequalities. For example, assume the income thresholds are set at $100,000 for married filing separate and $200,000 for married filing joint. Further, assume that Taxpayers A, who file as married filing separate, have income of $50,000 and $350,000, and Taxpayers B, who file joint, have income of $250,000. Taxpayers A, with a total income of $400,000, will be able to claim a $4,000 deduction (for one spouse), whereas Taxpayers B, with a total income of $250,000, will not qualify for any deduction.

Third, the Department suggests the following clarifying amendment to the new section 235-__(d):

> (d) If the amount of the contribution to the qualified taxpayer's account in a college savings program exceeds the maximum deduction for the taxable year in which the contribution is made pursuant to subsection (a), the excess deduction may be used as a deduction against the qualified taxpayer's Hawaii adjusted gross income for up to four subsequent tax years or until the excess deduction is exhausted[~~.~~], whichever occurs first.

Finally, the Department notes that it will be able to implement this bill for taxable years beginning after December 31, 2022.

Thank you for the opportunity to provide comments on this measure.

JOSH GREEN, M.D.
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAI'I EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

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DEPARTMENT OF BUDGET AND FINANCE
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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT

WRITTEN ONLY

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 281, S.D.1

February 15, 2023
10:30 A.M.
Room 211 and Videoconference

RELATING TO THE COLLEGE SAVINGS PROGRAM

Senate Bill No. 281, S.D.1 proposes to provide for an annual state income tax deduction of $4,000 per individual or $8,000 for a married couple filing jointly, against taxable income, for contributions (net of qualified withdrawals made in the same year for that designated beneficiary) to an account in a college savings program established under section 529 of the Internal Revenue Code (commonly known as 529 college savings plans). The measure allows the state tax deduction for contribution made to any state's college savings plan and does not limit it to Hawaiʻi's College Savings Program established under HRS chapter 256 (HI529 plan).

The Department provides comments and appreciates the intent of the bill to encourage and provide incentives for individuals and families to save and invest funds for higher education, instead of taking out more loans.

From HI529 program information available as of December 2022, if all Hawai‘i-based account owners with funds in their accounts, contributed the maximum deduction for a single state tax-filer at the maximum tax rate, the potential revenue loss would be about $1.5 million annually; or more if future eligible contributions increased.

However, this measure would allow a Hawai‘i state income tax deduction for contributions made to any college savings program established under section 529 of the Internal Revenue Code. The number of state-tax filing individuals that have any of the nation’s over ninety college savings 529 plans, is unknown and the revenue loss can’t be estimated for contributions made to those plans. Limiting a deduction from income only those taxpayers who participate in the State’s HI529 program may help facilitate revenue loss estimates, as we have program information available for the State plan.

In closing, the Department recognizes that a tax deduction would provide a significant incentive to Hawai‘i families to save for college. Thank you for your consideration of our comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Deduct contributions to HI529 college savings program

BILL NUMBER: SB 281 SD 1

INTRODUCED BY: Senate Committee on Higher Education

EXECUTIVE SUMMARY: Establishes a state income tax deduction for eligible contributions made to any college savings program established under section 529 of the Internal Revenue Code.

SYNOPSIS: Adds a new section to chapter 235, HRS, to allow a deduction for a contribution to an account in a college savings program established under section 529 of the Internal Revenue Code of 1986, as amended.

The amount deductible is not to exceed $4,000 ($8,000 for married taxpayers filing a joint return, heads of household, or surviving spouses). Only amounts contributed within the taxable year count; if a contribution is mailed in, it counts if it is postmarked within the taxable year.

The deduction is "above the line," meaning that it is deducted when computing the taxpayer's Hawaii adjusted gross income, unlike most itemized deductions.

The deduction is not allowed for a contribution that is rolled over from another state's college savings program.

If the amount of the deduction exceeds the taxpayer's taxable income, the excess may be used as a deduction in subsequent taxable years until exhausted.

Provides for recapture of the deduction if the taxpayer makes a nonqualified withdrawal from the program.

Defines "qualified taxpayer" as a resident of the State who is an individual taxpayer or a married couple filing separate returns each with an adjusted gross income of less than $_____or a married couple filing a joint return, head of household, or surviving spouse with an adjusted gross income of less than $_____.

Defines "rollover" as a distribution or transfer from an account that is transferred to or deposited within sixty calendar days of the distribution into an account of the same person for the benefit of the same designated beneficiary or another person who is a member of the family of the designated beneficiary; provided that the transferee account was created under a college savings program maintained in accordance with section 529 of the Internal Revenue Code of 1986, as amended, or successor legislation.

Amends section 23-95, HRS, requiring a periodic review by the State Auditor of this, among other tax incentives.

Makes conforming amendments.

EFFECTIVE DATE: Taxable years beginning after an unspecified date.

STAFF COMMENTS: The Hawaii college savings program under chapter 256, HRS, is a college savings program intended to qualify under section 529, IRC.

Under the IRC, contributions to a 529 plan are not deductible, but the monies in the plan can earn income tax-free and will not be taxed when the money is taken out to pay for college.

Hawaii income tax law conforms to IRC section 529, with minor modifications such as a withdrawal is nonqualified for Hawaii purposes if it is used to purchase software. See section 235-2.4(ii), HRS, which decouples from IRC section 529(e)(3)(A)(iii).

According to savingforcollege.com, https://www.savingforcollege.com/intro-to-529s/name-the-top-7-benefits-of-529-plans, over 30 states currently offer a full or partial tax deduction or credit for 529 plan contributions. Hawaii offers none of those incentives.

Digested: 2/12/2023

Committee on Ways and Means
The Hawaii State Senate
415 S Beretania St.
Honolulu, HI 96813

Re: SUPPORT SB 281, SD1

February 13, 2023

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and esteemed members of the Ways and Means Committee,

I am writing to ask that you SUPPORT BILL **SB 281 SD1**, which seeks to create an income tax deduction for HI 529 accounts.

As an educator in higher education and a parent of two children of my own, I am continually seeking to support our community's ability to pay for a college education, as higher education is shown to improve quality of life in terms of earnings potential, job security, networking, and both civic and community engagement. Giving our residents this tax-deferred college savings option will match the benefits seen by a number of other states, and help make the college experience. Because we live in the state with the highest cost of living, this bill becomes even more crucial to helping more afford college educations.

For all these reasons and more, I strongly SUPPORT BILL **SB 281 SD1**. Mahalo nui for hearing this bill!

Sincerely,

Erika Molyneux
Instructor, New Media Arts
Leeward Community College