

JAN 22 2021

A BILL FOR AN ACT

RELATING TO THE COLLEGE SAVINGS PROGRAM.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. In 2002, the State established a college
2 savings program called "TuitionEDGE", pursuant to chapter 256,
3 Hawaii Revised Statutes, and section 529 of the Internal Revenue
4 Code of 1986, as amended. In November 2007, the program was
5 revised and renamed as "HI529 Hawaii's College Savings Program".
6 The program assists and encourages families to save and invest
7 funds for future higher education expenses. The investment
8 income earned under the program is exempt from federal and state
9 taxes; provided that the funds are used for qualified higher
10 education expenses, including for apprenticeship programs and to
11 pay student loans, as authorized by recent amendments to section
12 529 of the Internal Revenue Code of 1986.

13 The legislature further finds that most other states offer
14 a state tax deduction or credit for contributions to state
15 college savings programs as an incentive for their residents to
16 participate. The legislature therefore finds that, as the cost
17 of higher education continues to rise, it is appropriate for the



1 State to provide a similar incentive to Hawaii taxpayers to
2 participate in college savings programs, thus helping Hawaii
3 families save for college instead of taking out educational
4 loans.

5 The purpose of this Act is to provide a state income tax
6 deduction for contributions to any college savings program under
7 section 529 of the Internal Revenue Code.

8 SECTION 2. Chapter 235 Hawaii Revised Statutes, is amended
9 by adding a new section to be appropriately designated and to
10 read as follows:

11 "§235- College savings programs. (a) There shall be
12 allowed as a deduction from the Hawaii adjusted gross income of
13 a qualified taxpayer, contributions made to an account in a
14 college savings program established under section 529 of the
15 Internal Revenue Code of 1986, as amended, or successor
16 legislation, including an account established pursuant to
17 chapter 256; provided that the annual deductions for the
18 contributions shall be up to:

19 (1) \$4,000 for qualified taxpayers filing a single return
20 and for married couples filing separate returns;



1 provided that each spouse may claim a deduction up to
2 \$4,000; and
3 (2) \$8,000 for married couples filing joint returns, heads
4 of household, or surviving spouses; provided that the
5 deduction shall be available to married couples filing
6 joint returns if at least one spouse is an account
7 owner in a college savings program;
8 provided further that only a qualified taxpayer who is an
9 account owner in a college savings program shall be allowed to
10 claim the applicable deduction for contributions made by the
11 qualified taxpayer into the qualified taxpayer's account in the
12 college savings program; provided further that any contributions
13 made to the qualified taxpayer's account in the college savings
14 program for a designated beneficiary shall be reduced by any
15 withdrawals made for qualified higher education expenses during
16 the same year for that designated beneficiary.
17 (b) In order to be deductible for a particular taxable
18 year, a contribution shall be credited to the qualified
19 taxpayer's account in the college savings program on or before
20 the last day of that taxable year; provided that if a



1 contribution is delivered by mail, it shall be postmarked on or
2 before the last day of that taxable year.

3 (c) Rollovers from a state's college savings program into
4 another state's college saving program shall not be considered
5 to be contributions eligible for the tax deduction under this
6 section.

7 (d) If the amount of the contribution to the qualified
8 taxpayer's account in a college savings program exceeds the
9 maximum deduction for the taxable year in which the contribution
10 is made pursuant to subsection (a), the excess deduction may be
11 used as a deduction against the qualified taxpayer's Hawaii
12 adjusted gross income for up to four subsequent tax years until
13 the excess deduction is exhausted.

14 (e) Contributions to a college savings program that have
15 been deducted from the qualified taxpayer's Hawaii adjusted
16 gross income for prior taxable years shall be subject to
17 recapture and penalties pursuant to section 529(c)(6) of the
18 Internal Revenue Code of 1986, as amended, or successor
19 legislation, if the qualified taxpayer makes a subsequent
20 nonqualified withdrawal from a college savings program. The
21 contribution shall be recaptured by adding the amount previously



1 deducted, not to exceed the amount of the nonqualified
2 withdrawal, to the qualified taxpayer's Hawaii adjusted gross
3 income for the tax year in which the nonqualified withdrawal
4 occurred.

5 (f) As used in this section:

6 "Contribution" means:

7 (1) Any payment directly allocated to a college savings
8 program account for the benefit of a designated
9 beneficiary, or used to pay administrative fees
10 associated with the account; and

11 (2) The portion of any rollover amount treated as a
12 contribution under section 529 of the Internal Revenue
13 Code of 1986, as amended, or successor legislation.

14 "Qualified higher education expenses" shall have the same
15 meaning as in section 256-1.

16 "Qualified taxpayer" means a married couple filing separate
17 returns each with an adjusted gross income of less than
18 \$ _____ or a married couple filing a joint return, head of
19 household, or surviving spouse with an adjusted gross income of
20 less than \$ _____.



1 "Rollover" means a distribution or transfer from an account
2 that is transferred to or deposited within sixty calendar days
3 of the distribution into an account of the same person for the
4 benefit of the same designated beneficiary or another person who
5 is a member of the family of the designated beneficiary if the
6 transferee account was created under chapter 256 or another
7 college savings program maintained in accordance with section
8 529 of the Internal Revenue Code of 1986, as amended, or
9 successor legislation."

10 SECTION 3. Section 23-95, Hawaii Revised Statutes, is
11 amended by amending subsection (c) to read as follows:

12 "(c) This section shall apply to the following:

- 13 (1) Section 235-5.5--Deduction for individual housing
14 account deposit;
- 15 (2) Section 235-7(f)--Deduction of property loss due to a
16 natural disaster;
- 17 (3) Section 235-16.5--Credit for cesspool upgrade,
18 conversion, or connection;
- 19 (4) Section 235-19--Deduction for maintenance of an
20 exceptional tree;

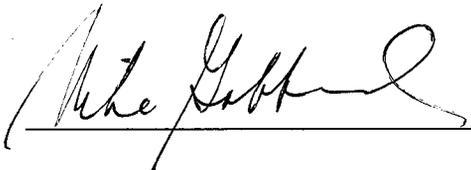


- 1 (5) Section 235-55.91--Credit for the employment of a
- 2 vocational rehabilitation referral;
- 3 (6) Section 235-110.2--Credit for in-kind services
- 4 contribution for public school repair and maintenance;
- 5 [~~and~~]
- 6 (7) Sections 235-110.8 and 241-4.7--Credit for ownership
- 7 of a qualified low-income housing building[-]; and
- 8 (8) Section 235- --Deduction for contributions to an
- 9 account in a college savings program."

10 SECTION 4. Statutory material to be repealed is bracketed
11 and stricken. New statutory material is underscored.

12 SECTION 5. This Act, upon its approval, shall apply to
13 taxable years beginning after December 31, 2020.

14

INTRODUCED BY: 

S.B. NO. 358

Report Title:

College Savings Program; Income Tax Deduction

Description:

Establishes a state income tax deduction for eligible contributions made to any college savings program under section 529 of the Internal Revenue Code. Applies to taxable years beginning after 12/31/2020.

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