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# 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 Hawaii taxpayers making contributions to any  
7 college savings program established under section 529 of the  
8 Internal Revenue Code.

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

12 "§235- College savings program. (a) There shall be  
13 allowed as a deduction from the Hawaii adjusted gross income of  
14 a qualified taxpayer, contributions made to an account in a  
15 college savings program established under section 529 of the  
16 Internal Revenue Code of 1986, as amended, or successor  
17 legislation; provided that the annual deductions for the  
18 contributions shall be not more than:

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



1           provided further that each spouse may claim a  
2           deduction of not more than \$4,000; and  
3           (2) \$8,000 for qualified taxpayers filing joint returns,  
4           heads of household, or surviving spouses; provided  
5           further that the deduction shall be available to  
6           married couples filing joint returns if at least one  
7           spouse is an account owner in a college savings  
8           program;  
9           provided further that only a qualified taxpayer who is an  
10          account owner in a college savings program shall be allowed to  
11          claim the applicable deduction for contributions made by the  
12          qualified taxpayer into the qualified taxpayer's account in the  
13          college savings program; and provided further that any  
14          contributions made to the qualified taxpayer's account in the  
15          college savings program for a designated beneficiary shall be  
16          reduced by any withdrawals made for qualified higher education  
17          expenses during the same year for that designated beneficiary.  
18          (b) In order to be deductible for a particular taxable  
19          year, a contribution shall be credited to the qualified  
20          taxpayer's account in the college savings program on or before  
21          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 savings program shall not be considered  
5 as 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 an individual taxpayer or a  
17 married couple filing separate returns each with an adjusted  
18 gross income of less than \$ \_\_\_\_\_ or a married couple filing  
19 a joint return, head of household, or surviving spouse with an  
20 adjusted gross income of 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;  
6 provided that the transferee account was created under a college  
7 savings program maintained in accordance with section 529 of the  
8 Internal Revenue Code of 1986, as amended, or successor  
9 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 shall take effect upon its approval;

13 provided that section 2 shall apply to taxable years beginning

14 after December 31,



**Report Title:**

College Savings Program; Income Tax Deduction

**Description:**

Establishes a state income tax deduction for eligible contributions made to any college savings program established under section 529 of the Internal Revenue Code. Applies to taxable years beginning after an unspecified date. (SD1)

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

