TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TAXATION
ON
SENATE BILL NO. 2660, S.D.1

February 12, 2008

RELATING TO COLLEGE SAVINGS PROGRAMS.

Senate Bill No. 2660, S.D.1, proposes to provide a state income tax deduction for contributions to any qualified tuition program established pursuant to Section 529 of the Internal Revenue Code. The Bill proposes a tax deduction of up to $5,000 for taxpayers filing individually and up to $10,000 for married couples filing joint returns, heads of households, or surviving spouses. In addition, S.D.1 proposes establishing a $75,000 cap on the total tax deduction that may be claimed per college savings account; and also require financial institutions in the State to provide individuals who are interested in opening a 529 account, information on HI 529, Hawaii's college savings program.

The Department of Budget and Finance supports the intent of this bill, which is consistent with the Administration's Senate Bill No. 3000 that provides individuals an incentive in the form of a State tax deduction for contributions to the State of Hawaii's 529 College Savings Program called "HI 529."

However, we oppose allowing the State tax deduction for contributions to any qualified 529 plan. Rather than encourage Hawaii residents to invest in other states' plans, we would like to see Hawaii's plan grow, because with the growth of Hawaii's plan, there is opportunity for our plan participants to benefit from lower program fees. The HI 529 program is a "direct sold" plan as opposed to an "advisor sold" plan. Typically lower costs are associated with direct-sold plans; as advisor-sold plans generally assess an advisor fee or commission to the plan owner.

Of equal importance are the following additional reasons that the state tax incentive should remain with Hawaii's plan only:

1. Accountability. It would be difficult to effectively monitor and administer a program that provides a State tax benefit for contributions made to other state's 529 programs. There would be no effective policy measurement as the other state's program managers would not be able to provide necessary data to Hawaii. In contrast, the program manager for Hawaii's plan is contractually required to provide data and statistics on the program as well as geographical and socio-economic data. This data could then be used to ensure that the program is reaching a broad-base of families from a wide-range of income levels.
2. Responsible tax policy. Keeping the deduction to the "in-state" plan would provide for a more controlled tax impact. If the state tax deduction benefit were opened up to any 529 program, there would be no means on which to base a projection of the tax impact. Also, Hawaii's program manager is contractually required to provide data necessary for the State's Tax Department to monitor whether the tax benefits are being abused.

Senate Bill No. 2660 also proposes a maximum tax deduction of $5,000 for taxpayers filing individually, and $10,000 for taxpayers filing jointly. We recommend the higher maximum deductions as provided for in Senate Bill No. 3000 of $10,000 for taxpayers filing individually, and $20,000 for taxpayers filing jointly. We believe that the higher maximum deductions will be a greater incentive and better assist individuals and families saving for our children's future college expenses.

In response to the proposed $75,000 cap on the total tax deduction that may be claimed per account, we believe that such a limitation would be a disincentive to continue contributions or participation in the HI 529 Program once an account owner reaches the cap. The incentive provided should enable account owners to pay for the anticipated tuition expenses. In the August 2007 issue of Money Magazine, the estimated cost for four years of tuition, room and board at a public college is estimated to be $125,000 by 2022; and closer to $300,000 for a private college.

With respect to the requirement for financial institutions to provide customers with information on Hawaii's 529 plan, the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) currently impose a requirement that a financial institution disclose the availability of any in-state program and specific tax benefits of the in-state program to clients investing in 529 programs. Therefore, while we appreciate the intent of this provision in the bill, we believe that it is not necessary.

We have recently been made aware that other states with similar tax incentives have tightened-up their program to prevent possible abuse. The Department of Budget and Finance is working with the Department of Taxation to address these issues which may require additional statutory changes. The items to be addressed are:

1. Prevent account owners from depositing funds in one year, withdrawing the funds in the subsequent year, and then re-depositing the same funds and claim a deduction for both years.

2. Prevent account owners from depositing funds into a HI 529 account, taking the deduction, and subsequently transferring the funds out to another state's 529 program.

We are also pursuing an additional statutory change to allow anyone to contribute into a HI 529 account. Currently, only the account owner is allowed to contribute into a HI 529 account. We will work with this Committee or subsequent committees on providing the necessary statutory language changes as this bill progresses through the legislative process.

Therefore, while we support the intent of Senate Bill No. 2660, we prefer the language as contained in the Administration's Senate Bill No. 3000 that provides for a state tax deduction benefit for contributions made to Hawaii's 529 program only, and no cap on the total deduction. Thank you for this opportunity to provide testimony on this measure.

TESTIMONY BY PATRICK W. MCKEON
CHIEF COMPLIANCE OFFICER, UPROMISE INVESTMENTS, INC.
PROGRAM MANAGER FOR HI529 – HAWAII'S COLLEGE SAVINGS PROGRAM
TO THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TAXATION
SENATE BILL NO. 2660, S.D.1

February 12, 2008

Senator Carol Fukunaga, Chair	Senator Will Espero, Vice-Chair
Senator Rosalyn H. Baker	Senator J. Kalani English
Senator David Y. Ige	Senator Sam Slom

RELATING TO THE STATE OF HAWAII SECTION 529 COLLEGE SAVINGS PROGRAM.

Introduction

Thank you for the opportunity to provide testimony relating to S.B. 2660, which would provide a state income tax deduction for contributions to any qualified tuition program established pursuant to Section 529 of the Internal Revenue Code. Upromise Investments, Inc. (Upromise) currently serves as Program Manager for HI529 – Hawaii's College Savings Program, with responsibility for coordination of services to the State of Hawaii and its college savers, including marketing, recordkeeping, administration, investment management, and client service.

Upromise recognizes that determination of tax and other public policies with respect to HI529 remains the discretion and responsibility of the State. As Program Manager for HI529, we hope that the following testimony provides helpful information as the Committee considers this bill, including additional context on the recent enhancements to the State's college savings program, as well as observations on state tax incentives related to 529 plans, consistent with our experience as a service provider to the 529 industry.

Overview of Services and Recent Enhancements for Hawaii's 529 College Savings Program

Upromise began providing services to HI529 in November of 2007, after being selected as Program Manager through a competitive RFP bidding process administered by the State of Hawaii's Department of Budget and Finance. The State and Upromise worked together to transition services for HI529 from the previous Program Manager, and in the process, introduced a number of significant enhancements, including:

- An immediate cost reduction of more than 20% for all Program participants, with commitments to further reduce price as the program grows
- An expanded investment line-up featuring high-value, low-cost options from The Vanguard Group, a trusted leader in mutual fund investing
- Significantly increased client service functionality, including full online account opening and account maintenance
- Marketing capabilities focused on reaching <u>all</u> audiences, including novice investors, middle-income families, and even lower-income households
- Additional savings opportunities through the free Upromise Rewards Service, which provides college savings back on families' everyday spending

Reaching College Savers of All Demographics

Upromise has worked successfully with state partners to offer high-value, low-cost "Direct-sold" 529 programs to the full range of college savers – from novice investors that include middle- and even lower-income families to more sophisticated participants. "Direct-sold" plans, like HI529, are offered directly to participants without sales commissions or other Advisor fees.

"Advisor-sold" 529 programs are plans through which participation is driven largely by financial Advisors working with their clients. Typically, individuals who work with financial Advisors tend to be more affluent and sophisticated investors, who are willing to pay more for the advice and guidance of an Advisor. As a result, Advisor-sold 529 programs are on average more expensive than programs that are Direct-sold.

Upromise Experience with 529 State Tax Incentives

Upromise provides 529 plan services to 11 state partners, and administers over 1.5 million college savings accounts. As a service provider solely dedicated to the 529 industry, Upromise has a mission that mirrors the goal of our state partners: to make college more affordable and accessible for all American families, regardless of income or other demographics.

Upromise contributes to this mission by providing 529 technology and client services designed to make it as easy as possible for a family to get started saving. Upromise's 529 system has been designed so that in 10 minutes or so, a busy parent or grandparent – who has just a few free moments in the day – can open a 529 account, establish an automatic investing plan from their bank account, or contribute through payroll deduction at work, enroll in the Upromise Rewards Service for additional savings (if desired), and put their college savings strategy on auto-pilot.

Upromise has observed the positive effect that a state income tax deduction can have in providing a significant incentive for getting started and staying engaged with a college savings strategy. The majority of Upromise's state partners provide a state tax deduction on contributions made to the home state's 529 plan. These deductions range from $5,000 per year for one state to an unlimited deduction on annual contributions for another.

Across 529 plans administered by Upromise, state plans that provide a state tax deduction experience significantly higher participation in comparison to those that do not. In addition, Upromise has observed in-state participation significantly increase after the introduction of a state tax deduction for state plans that previously did not offer any incentive on contributions. For example, annual contributions by state residents more than doubled, on average, for the two Upromise-administered state plans that recently implemented a state tax deduction for 529 contributions.

Considerations in Providing a Tax Deduction on Contributions to Any State's 529 Plan

The Committee may want to consider certain potential consequences if Hawaii were to provide a State income tax deduction on contributions to any state 529 plan:

1. **Reduced control over how 529 plan information is marketed within Hawaii.** Currently, the State has control and oversight over how HI529, as a municipal security sponsored by the State of Hawaii, is marketed and distributed to Hawaii residents. The State reviews and approves all Program materials and outreach efforts, and can help ensure that the Program's marketing tactics are consistent with the State's overall goal of helping all residents save for college.

   A State tax deduction only for HI529 would effectively increase this influence over how 529 plans are marketed within the State, by further underscoring HI529 as the 529 plan designed specifically for Hawaii residents. By instituting a tax incentive to further encourage Hawaii families to consider their home state's plan first, the State can help ensure that Hawaii residents are presented with 529 information and disclosure that was designed for them, with control and oversight by the State.

   The State does not have control over how other states' plans are marketed within Hawaii. In a scenario where a State tax deduction were available on contributions to any state's 529 plan, the State may, in effect, reduce its influence over how 529 plan information is presented to Hawaii residents and would not be able to control the promotion of HI529 as a low cost alternative with special benefits. This consideration may be especially relevant at a time when the marketing and distribution practices of the 529 industry are under scrutiny, particularly with respect to the sale of out-of-state plans to in-state residents.

2. **Potential negative effect on State's goal of helping Hawaii families of all demographics save for college.** Providing a State income tax deduction on contributions to any state's 529 plan would not necessarily advance the State's goal of helping all Hawaii families save for college, particularly middle- and even lower-income families. There is the potential that other state 529 plans would leverage the deduction primarily to market to more affluent investors – i.e., individuals that traditionally work with financial Advisors – leaving the State of Hawaii to market HI529 to the rest of the population. This loss of 529 plan assets to other states' plans potentially could have a significant impact on the scale advantages of HI529, as described below.

   Upromise recognizes the value and role of an Advisor to certain investors and has developed technology and client service functionality that can be deployed in service to HI529 in order to enable Hawaii-based Advisors to stay engaged with their clients' college investing activity. This functionality includes the ability to receive duplicate account statements and the potential to view client accounts online.

3. **Reduced participation and scale for HI529, which impacts pricing and benefits for Hawaii residents.** HI529 benefits from contractual commitments to further reduce the cost to Hawaii participants as the Program grows, reflecting the economies of scale associated with increased Program assets as well as Upromise's history of continuing to drive down costs for state partners and plan participants. A State tax deduction on contributions to any state's 529 plan would potentially result in reduced scale and/or slower growth for HI529, which may impact the State's ability or timing to offer further cost reductions and other benefits to Hawaii 529 Program participants.

Again, thank you for the opportunity to provide these observations. Upromise is pleased to be of service to Hawaii in helping to achieve the State's objectives for college savings, and looks forward to continuing to work with the State to enhance HI529 and to help all Hawaii families save for college.

SIFMA Securities Industry and Financial Markets Association
Securities Industry and Financial Markets Association New York • Washington • London • Hong Kong
120 Broadway, 35 Floor • New York NY 10271-0080 • P:212.313.1200 • F:212.313.1301 • www.SIFMA.org

February 11, 2008

Senator Carol Fukunaga, Chair
Senator Will Espero, Vice Chair
Committee on Economic Development & Taxation
Hawaii State Capitol, Room 414
Honolulu, HI 96813

RE: S.B. 2660, S.D.1, Relating to College Savings Programs

Dear Chairman Fukunaga and Vice Chair Espero:

The Securities Industry and Financial Markets Association (SIFMA)[1] is writing to express its strong support for S.B. 2660 S.D.1. This legislation would allow Hawaii residents who contribute to <u>any</u> qualified 529 plan to deduct the amount of that contribution – up to a maximum of $10,000 per year per married couple filing jointly – from their gross income for state tax purposes.

Saving for your children's college education can be a daunting task. The College Board reports that the current price tag for **one year** of undergraduate education is $13,589 for public institutions and $32,307 for private institutions. Multiply that number by four years, and parents and students are facing total college costs that currently range between roughly $54,000 and $130,000. Furthermore, college costs are only going up. Over the last five years, after adjusting for inflation, total costs have increased 40% at four-year public colleges and 30% at four-year private colleges and universities. In light of these numbers, a U.S. Commerce Department report that the personal savings rate of Americans in 2006 (the last year for which data is currently available) has dropped to negative 1% is particularly troubling.

Paying for college requires extensive planning and saving. Many entities, including Kiplinger's and savingforcollege.com, believe that 529 plans are the best college savings vehicle. A major reason why these plans are so attractive is that the Economic Growth and Tax Relief Reconciliation Act of 2001 makes earnings on 529 plans free from federal tax so long as they are used for qualified education expenses. In addition, most states- including Hawaii – have followed the federal government's lead and don't tax 529 earnings.

S.B. 2660 S.D.1 is good public policy because it gives Hawaii residents an additional incentive to save for college. Residents who contribute to any qualified 529 plan would be permitted to deduct contributions of up to $10,000 per married couple filing jointly from their state taxable

[1] The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

income. We applaud you for advancing legislation that further encourages Hawaii residents to save for the education needs of their children.

As you undoubtedly know, an educated population provides tremendous benefits to the state. According to the U.S. Census Bureau, people with bachelor's degrees earn over 70% more on average than those with only a high school diploma, and the earnings gap between a high school and a college graduate is more than $1,000,000 over a lifetime. In addition, a College Board report entitled "Education Pays" concluded that college graduates not only make more but they also have lower levels of unemployment, are less likely to depend on social programs, and have lower smoking and incarceration rates.

We do have some questions about the amendment added in the Education Committee which would require financial institutions to give information on the Hawaii college savings program to any person seeking investment advice or services regarding postsecondary education savings accounts. Hawaii does not currently have an adviser sold plan. While it may be possible for financial advisers to reference that a Hawaii plan with similar tax benefits exists, it would not be reasonable or customary to expect these advisers to hand out materials, describe its features and benefits or otherwise promote a plan they cannot sell. We would encourage you to strike the provision in Section 2 or, at a minimum, limit it to informing clients of the existence of the Hawaii plan.

For the reasons stated above, SIFMA encourages the Committee to support S.B. 2660 S.D.1. Please feel free to contact me at 212-313-1311 or my lobbyists, Red Morris and John Radcliffe, at 808-531-4551 if you have any questions.

Sincerely,

Kim Chamberlain

Kim Chamberlain
Managing Director & Counsel
State Government Affairs

testimony

From: Jennifer Higaki [Jennifer@hais.org]
Sent: Monday, February 11, 2008 10:05 AM
To: testimony
Cc: Robert Witt
Subject: Testimony for SB2660 SD1 - Sen EDT, Feb. 12 @9:25a
Attachments: SB2660 SD1 - Coll. Savings - Sen EDT - RW Testimony 021208.pdf

Hello,

Attached please find testimony from Robert Witt, executive director of the Hawaii Association of Independent Schools, for the Senate Economic Development & Taxation hearing of SB2660 SD1 – Relating to College Savings Programs on Tuesday, February 12 at 9:25a.

Should you have any questions about the testimony or encounter any difficulty accessing the attached document, please contact me at the information below.

Thank you,
Jennifer

Jennifer Higaki
Grants Administrator and Public Policy Advocate
Hawaii Association of Independent Schools
1585 Kapiolani Boulevard, Suite 1212
Honolulu, HI 96814
Email: jennifer@hais.org
Phone: 808.973.1533
Fax: 808.973.1545

"Promoting choice and preserving independence"

testimony

From: Ariyoshi, Donn [Donn.Ariyoshi@morganstanley.com]
Sent: Monday, February 11, 2008 2:12 PM
To: testimony
Cc: Chris Stack; Pacarro, Gwen; Pacarro, Gary; Jobe, Stephen R; Chamberlain, Kimberly; Dan Barry; Brian.Enoka@aigretirement.com
Subject: SB 2660 Testimony
Attachments: Memo to Legislature 2008.doc; State Performance Rankings.pdf; Securities Industry Ltr.pdf

Aloha. My name is Donn Ariyoshi and I will be testifying in support of SB 2660 to offer a tax deduction in the Hawaii Plan for all contributions made to all 529 College Savings Plans by Hawaii residents. Attached are (1) our Memo to the Legislature, (2) state performance rankings and (3) letters from organizations supporting SB 2660 and our efforts.

<<Memo to Legislature 2008.doc>> <<State Performance Rankings.pdf>> <<Securities Industry Ltr.pdf>>
I will be at eh Senate Conference Room 224 on Tuesday at 9:25 am.

Mahalo,

Donn R. Ariyoshi
Financial Advisor, Western Division
Morgan Stanley
The McRoberts/Strada Team
Global Wealth Management Group

ASB Tower, Suite 1600
1001 Bishop Street
Honolulu, Hawai`i 96813

Phone - (808) 525-6909
Fax - (808) 525-7939
toll free - 800 465-4071

email: donn.ariyoshi@morganstanley.com

January 28, 2008

To: **The Hawai`i State Legislature**

From: **Donn Ariyoshi**
Morgan Stanley

Re: **529 College Savings Plan in Hawai`i**
SB 2660 and HB 2996

Aloha! 529 College Savings Plans are excellent programs for Hawai`i families for many reasons. These programs allow families to save and invest for their college costs, which continue to rise 2x the rate of inflation.

- **The 529 College Savings Plans allow for the owner (parents, grandparents and great grandparents) to gift from their estate (within the allowable limits) into an account naming a child as the beneficiary (for future higher education costs).**

- **The 529 College Savings Plans allow assets to grow in a tax deferred account. Since the federal tax law allows the owners to contribute a 5 year accelerated gift, time becomes an advantage allowing for college savings to grow faster than otherwise.**

- **The 529 College Savings Plans give the owners an opportunity to move assets to benefit future generations without paying gift taxes, estate taxes and generation skipping taxes on plan contributions.**

- **Distributions to fund student's expenses at higher educational institutions are TAX FREE. The plan owner pays neither income tax nor capital gains taxes when applied toward certain college costs .**

- **These plans are flexible and can be used by generations to follow. Once the original beneficiary completes his or her college program and if there are still assets left in their plan account, then the owner may designate a new owner (one of his/her children) so they can name a grandchild (the original owner's great grandchild) as the next beneficiary who may then benefit from the plan.**

The federal tax code provides that a state may set up such a plan and nearly every state, including Hawai`i, has done so. These plans have no residency requirement so anyone can use the HI 529 Plan and any Hawai`i family can use any plan they choose and they often do.

We note that there are several bills now pending to provide additional help to families of Hawai`i. The INTENT of the Legislature to offer a tax deduction to owners contributing to 529 College Savings Plan is WONDERFUL! Hawai`i families will truly benefit from such a break. We also feel this will create awareness of college expenses (a later expense that could be addressed early) and will encourage Hawai`i to plan ahead lessening a financial burden to many.

After reviewing some bills introduced in the 2007 Session, we are concerned by the details of such bills which reveal that the proposed tax deduction may not be available to contributions of all 529 College Savings Plans. We strongly feel that this restriction, making only certain contributions to the HI 529 College Savings Plan tax deductible, may be too restrictive. There are many plans available to Hawai`i residents and not allowing for contributions to all such plans to be deductible, restricts Hawai`i families of the full benefit of the 529 program. This could reduce the benefit of the 529 program and smear the good intent of the Legislature.

We would like to see introduced a bill that maintains the intent of the Legislature and maintains the full benefit of 529 College Savings Plans for our families in Hawai`i. We will see you during our 2008 Session!

Mahalo Nui Loa,

Donn Ariyoshi
Strada McRoberts Team
Morgan Stanley

Gwen Pacarro
Hawai`i Complex Manager
Morgan Stanley

Financial Planning Association
Hawai`i Chapter

Stephen Jobe
Vice President, Director 529 Plans
Morgan Stanley

College Savings Foundation
New York

Securities Industries and Financial Markets Association
New York, Washington, London and Hong Kong

Reference:
Chris Stack
Savingforcollege.com

Savingforcollege.com

Plan Composite Performance Rankings as of September 30, 2007
Direct sold 529 Plans
Ranked by 3 Yr performance **not including** sales charges

The Savingforcollege.com Plan Composite Rankings are derived using the plans relevant portfolio performance in seven unique asset allocation categories. The asset allocation categories used are 100% Equity, 80% Equity, 60% Equity, 40% Equity, 20% Equity, 100% Fixed, and 100% Short Term. The plan composite ranking is calculated by taking the weighted average of each plan's performance in the seven categories.

Rank	Plan	SCORE
1	Rhode Island: CollegeBoundfund (Direct-sold, Alternative R)	14.31
2	South Dakota: CollegeAccess 529 (Direct-sold)	18.68
3	Virginia: Virginia Education Savings Trust (VEST)	20.82
4	Nebraska: College Savings Plan of Nebraska (Direct-sold)	24.84
5	Louisiana: START Saving Program	25.28
6	Alabama: Higher Education 529 Fund (Direct-sold)	31.72
7	Minnesota: Minnesota College Savings Plan	33.36
8	Alaska: University of Alaska/T. Rowe Price College Savings Plan	34.47
9	Nebraska: TD Ameritrade 529 College Savings Plan	36.08
10	West Virginia: SMART529 WV Direct	36.43
11	Michigan: Michigan Education Savings Program	37.91
12	Utah: Utah Educational Savings Plan (UESP) Trust	39.10
13	Indiana: CollegeChoice 529 Investment Plan (Direct-sold)	40.33
14	Delaware: Delaware College Investment Plan	45.60
15	Maryland: College Savings Plans of Maryland - College Investment Plan	46.54
16	Ohio: Ohio CollegeAdvantage 529 Savings Plan	46.85
17	Oregon: Oregon College Savings Plan	47.85
18	New Hampshire: UNIQUE College Investing Plan	48.39
19	New Jersey: NJBEST 529 College Savings Plan	48.95
20	North Carolina: National College Savings Program	49.04
21	Vermont: Vermont Higher Education Investment Plan	49.61
22	South Carolina: Future Scholar 529 College Savings Plan (Direct-sold)	50.57
23	Kansas: Schwab 529 College Savings Plan	51.64
24	Nevada: The Vanguard 529 Savings Plan	53.16
25	Nevada: The Upromise College Fund	53.73
26	Kentucky: Kentucky Education Savings Plan Trust	53.73
27	Massachusetts: U.Fund College Investing Plan	56.30
28	West Virginia: SMART529 Select	56.85
29	Iowa: College Savings Iowa	57.17
30	District of Columbia: DC 529 College Savings Program (Direct-sold)	57.79
31	Georgia: Georgia Higher Education Savings Plan	60.37
32	Idaho: Idaho College Savings Program (IDeal)	61.66
33	Oklahoma: Oklahoma College Savings Plan	62.38
34	Tennessee: Tennessee's BEST Savings Plan	63.57
35	Mississippi: Mississippi Affordable College Savings (MACS) Program	66.41
36	Connecticut: Connecticut Higher Education Trust (CHET)	68.30
37	Wisconsin: EdVest (Direct-sold)	70.77

Rank	Plan	SCORE
38	New York: New York's 529 College Savings Program - Direct Plan	79.63
39	Hawaii: TuitionEDGE (Direct-sold)	81.60
40	Nevada: USAA College Savings Plan	81.93
-	Arizona: Fidelity Arizona College Savings Plan	NA
-	Arkansas: GIFT College Investing Plan	NA
-	California: The ScholarShare College Savings Plan	NA
-	Colorado: Direct Portfolio College Savings Plan	NA
-	Florida: Florida College Investment Plan	NA
-	Illinois: Bright Start College Savings Program - Direct Sold Plan	NA
-	Kansas: Kansas Learning Quest 529 Education Savings Program (Direct-sold)	NA
-	Maine: NextGen College Investing Plan - Client Direct Series	NA
-	Missouri: Missouri's 529 College Savings Plan (Direct-sold)	NA
-	Montana: Pacific Funds 529 College Savings Plan (Direct-sold) MT	NA
-	New Mexico: The Education Plan's College Savings Program (Direct-sold)	NA
-	Pennsylvania: Pennsylvania 529 Direct Investment Plan	NA

NA = Not Applicable = Program does not have at least 3 portfolios with sufficiently-long performance under our ranking model.

The performance data underlying these rankings represents past performance and is not a guarantee of future performance. Current performance may be lower or higher than the performance data used. A plan portfolio's investment return and principal value will fluctuate so that an investor's shares or units when redeemed may be worth more or less than their original cost. Investors should carefully consider plan investment goals, risks, charges and expenses, by obtaining and reading the plan's official program description before investing. Investors should also consider whether their of their beneficiary's home state offers any tax or other benefits that are available for investments only in such state's 529 plan.

Brokers please note: For internal use only and not for use with or to be shown to the investing public.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Deduction for college savings program

BILL NUMBER: SB 2660, SD-1

INTRODUCED BY: Senate Committee on Education

BRIEF SUMMARY: Amends HRS section 235-7 to provide that the annual deductions from gross income for contributions to a qualified tuition program established pursuant to IRC section 529 shall be: (1) up to $5,000 for individual taxpayers; (2) up to $5,000 for married couples filing separately provided that each spouse may claim a deduction up to $5,000; and (3) up to $10,000 for married couples filing joint returns, individuals filing as head of households, or individuals filing as surviving spouses; provided that the aggregate deduction amount shall not exceed $75,000 per college saving account. If any amount of the deduction exceeds a taxpayer's taxable income for a year, the excess deduction may be used as a deduction against the taxpayer's taxable income in subsequent years until exhausted.

The amendments made to HRS section 235-7 shall not be repealed when that section is reenacted pursuant to Act 166, SLH 2007.

EFFECTIVE DATE: Tax years beginning after December 31, 2007

STAFF COMMENTS: The legislature by Act 81, SLH 1999, established a college savers program on the state level to allow taxpayers to save for a child's college education by participating in a state college savings program. This plan is patterned on the rules governing such plans established under Section 529 of the federal Internal Revenue Code. Under that section, contributions made to such qualified programs receive no special tax treatment but the law specifies that when the distribution is made from the account for the beneficiary, the amount in excess of the contribution is taxable as part of the beneficiary's income. There is no benefit or incentive for the contributor, in other words the contribution is made with after tax dollars.

This measure proposes an income tax deduction to encourage taxpayers to participate in the college savers program. In a similar measure proposed by the state administration their justification sheet estimated that the potential revenue loss for this proposal is $2.8 million; however, if the measure is successful in encouraging more participation in the program, then the revenue loss would be significant.

It should be remembered that it has long been the intent of the state legislature to maintain conformity between Hawaii's income tax law and the federal Code to insure that administration and compliance costs will be minimized. Given that there is no similar provision on the federal level, this proposal would create yet another difference in the definition of income for state income tax purposes.

If it is the intent of the legislature and administration to encourage families to set money aside for their children's higher education, the deduction, as proposed, is regressive in that it favors those at the high end of the income scale who probably would have the discretionary income to set aside funds and punishes those at the bottom end of the income scale as those families are less likely to put the maximum aside to qualify for the deduction. Inasmuch as the proposed deduction is a back door expenditure of tax dollars, it would be far more efficient for lawmakers to set up a subsidy program that would provide a sliding scale of percentages to subsidize or "match" contributions made to a qualified college savings account where the percentage of match would be inversely graduated. Thus, those lower income families with less discretionary income would see their small contributions matched at a higher percentage while those higher income families would see the match phase-out after a certain level of contribution is made. This would take the onus of administering the program out of the tax department and places it within the financial institutions who would benefit from the use of the money. This would also insure that the contributions are made to a local institution that would participate in the state matching program. This would be far more efficient and accountable than utilizing the tax system to encourage parents to save for their children's college education.

Digested 2/11/08

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
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PHONE NO: (808) 587-1510
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SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TAXATION

TESTIMONY REGARDING SB 2660 S.D. 1
RELATING TO COLLEGE SAVINGS PROGRAMS

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 12, 2008
TIME: 9:25 AM
ROOM: 224

This bill proposes a deduction from gross income for contributions made to Hawaii's "TuitionEDGE" 529 College Savings Plan. The Senate Committee on Education amended this measure by requiring institutions in Hawaii offering 529 plans to also provide information about Hawaii's 529 plan and establishing a per account deduction limit of $75,000.

The Department of Taxation (Department) **strongly supports** this measure; **however prefers the approach taken in the Administration measure, SB 3000**.

I. 529 PLANS, GENERALLY

Section 529 of the Internal Revenue Code allows states to sponsor programs that allow contributions to qualifying educational accounts that grow tax-free for purposes of financing certain qualifying education costs. Hawaii's 529 college savings plan is vested in Chapter 256, Hawaii Revised Statutes, and is overseen by the Department of Budget & Finance. However, an individual is not limited to choosing Hawaii's 529 plans. Taxpayers can choose any open program across the fifty states.

529 plans allow invested amounts to grow tax free, with no tax consequences when the funds are withdrawn for a qualifying purpose. Although the federal government does not provide any tax credits or deductions for amounts invested, many states offer tax credits or deductions for contributions to 529 plans within their state. With the high costs of post-secondary education, it is important that investment vehicles with tax benefits be provided for those saving for college.

II. TECHNICAL COMMENTS ON THIS MEASURE

THE DEPARTMENT PREFERS SB 3000—The Department prefers the approach taken in

SB 3000 because it limits the deduction to only to those investing in Hawaii's 529 plans. As noted above, taxpayers are not limited to their own state's plan in setting up a 529 account. Opening the deduction to all 529 accounts dramatically increases the cost of the deduction to the State. While the Committee on Education has deferred SB 3000, the Department strongly believes that it is superior to this bill in that it seeks to grow Hawaii's TuitionEDGE 529 plan and the Administration's amount has already been factored into the Executive Budget.

UNWORKABLE PER-ACCOUNT LIMIT—The measure provides that the lifetime limit on contributions to a 529 plan is $75,000 per account. The Department suggests that this per account limit is unworkable, since a taxpayer merely needs to set up a new account (even at the same institution) to avoid the per account limit. The Department suggests that any limit be applied at the taxpayer level, rather than at the account level.

RECAPTURE PROVISION—The Department suggests that a recapture provision be included in this measure, which would require any amount previously allowed or allowable as a deduction from income under this measure be includible in income in a subsequent year if the plan proceeds are used for any non-qualifying purpose in a subsequent year.

PROHIBITED DEPOSITS—The Committee may also want to consider adding recapture provisions that specify any "circular" use of account funds will be precluded from qualifying for the deduction. For example, if an account holder withdraws funds from the account and uses those funds to "re-deposit" funds, no deduction should be allowed for the "re-deposit."

In sum, this bill provides targeted tax incentives to those trying to effectively save for the financial burdens of a college education. Hawaii should capitalize on these investment vehicles by providing incentives for its taxpayers to assure that every person can effectively save for education.

III. <u>**REVENUE ESTIMATE**</u>

This bill will result in a revenue loss of approximately $1 million annually, assuming filers take the maximum deduction. Based on numbers previously reported by the Department of Budget and Finance and used in a similar estimate in CY2007, we increase the number of accounts by 100 to a total of 3,400 accounts and assume every filer will deduct the maximum allowable $5,000 per individual. We also assume a tax rate of 6%.

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AMERICA'S CREDIT UNIONS

February 11, 2008

The Honorable Carol Fukunaga, Chair
Senate Committee on Economic Development and Taxation
State Capitol, Room 224
Honolulu, HI 96813

Chair Fukunaga and members of the Committee:

S. B. No. 2660, S.D.1, *Relating to College Savings Programs*

My name is Mike Leach, Legislative & Regulatory Manager for the Hawaii Credit Union League (HCUL). I am testifying on behalf of HCUL as the local trade association for Hawaii's 93 federally and state-chartered credit unions to support the general intent of S.B. No. 2660, S.D.1.

There is a concern that requiring all financial institutions to provide information on the Hawaii College Savings Program may pose an undue burden on institutions, particularly smaller institutions, not able to offer a 529 college savings plan. While the intent is commendable, the current provisions of Section2, page two, lines four through ten, may not result in disclosures that knowledgeably and uniformly provide the information desired. It is not clear that the Commissioner of Financial Institutions is the appropriate person to determine if a financial institution is complying with this proposed requirement, although the proposed language would be included in Chapter 412, HRS, the Code of Financial Institutions. It may be appropriate to give a measure of discretionary authority to the public official responsible for determining compliance with the proposed disclosure requirements. This allows the official to consider mitigating circumstances in determining which institutions should provide the proposed disclosures.

I apologize that I am not able to attend today's hearing. I am willing to assist committee staff in working on changes to address this concern.

Thank you for the opportunity to comment on this measure.

Sincerely,

Michael P. Leach

Michael Leach
Legislative & Regulatory Manager

cc: Dennis K. Tanimoto, President