

LATE TESTIMONY

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON EDUCATION
ON
SENATE BILL NO. 2660

January 28, 2008

RELATING TO COLLEGE SAVINGS PROGRAMS.

Senate Bill No. 2660 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.

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 are in opposition to allowing the State tax deduction for contributions to any qualified 529 plan, as we want to encourage participation in the HI 529. Rather than encourage Hawaii residents to invest in other states' plans, we would like to see Hawaii's plan grow as we believe it is a good plan and as the plan grows, the participants would benefit as the fees would be assessed over a broader base. Furthermore, we believe that it would be difficult to monitor and administer a program that provides a State tax benefit for contributions made to other state's 529 program. This would require other states to submit data to the Department of Taxation in the administration of this program.

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.

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 higher maximum deduction for contributions made to the HI 529 Program only. Thank you for this opportunity to provide testimony on this measure.

January 28, 2008

To: The Hawai'i State Legislature

From: Donn Ariyoshi
Morgan Stanley

Re: 529 College Savings Plan in Hawai'i

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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
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Financial Planning Association
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Reference:
Chris Stack
Savingforcollege.com

Stephen Jobe
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