
A BILL FOR AN ACT

RELATING TO CHILD DEVELOPMENT ACCOUNT.

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

1 SECTION 1. The legislature finds that the State is
2 undergoing a significant and possibly protracted economic
3 downturn in tandem with the national and global economic and
4 financial crises. Numerous jobs have been lost, a number of
5 large and small companies have declared bankruptcy or left the
6 state, and many families have suffered foreclosure on their
7 over-mortgaged houses. In the past year, the council on
8 revenues has consistently reduced its forecasts of Hawaii's tax
9 revenues. Across-the-board spending restrictions have already
10 been put in place in state government and a general hiring
11 freeze has already been implemented except in areas that impact
12 public health and safety.

13 These recent developments have put into sharp focus the
14 failure of Americans to save and be ready for unanticipated
15 crises.

16 The purpose of this Act is to encourage the habit of saving
17 by the state's residents by establishing a custom already in
18 place in the United Kingdom and more recently in the state of



1 Maine, whereby each child has a savings account opened at birth
2 with an initial deposit made from excess general funds collected
3 during successive years when the general fund balance exceeds
4 five per cent of general fund revenues for each of the two
5 fiscal years in the state budget, upon enactment of an amendment
6 to section 6 of article VII of the Hawaii Constitution to amend
7 the disposition of excess revenues.

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

11 "CHAPTER

12 CHILD DEVELOPMENT ACCOUNT

13 § -1 Definitions. As used in this chapter, unless the
14 context otherwise requires:

15 "Account" means a child development account.

16 "Child development account" means an account that:

17 (1) Is held by a child who is or has been an eligible
18 child;

19 (2) Satisfies the requirements imposed by this chapter;
20 and

21 (3) Has been opened in accordance with this chapter.

22 "Director" means the director of taxation.



1 "Eligible child" means a child born after July 1, 2009, who
2 is a resident of the state.

3 § -2 Child development account; account types. (a) A
4 child development account may be opened and maintained only with
5 an account provider who has been approved by the department of
6 taxation. An account shall include the following terms:

7 (1) The account shall be held in the name of the eligible
8 child;

9 (2) The eligible child shall be entitled to the principal
10 and investments of the account, including all income
11 and gains;

12 (3) Withdrawals shall be restricted as provided for in
13 this chapter; and

14 (4) Only the person who has the authority to manage the
15 account may instruct the account provider regarding
16 management of the account.

17 (b) The director shall adopt rules in accordance with
18 chapter 91 to prescribe various types of accounts that may be
19 opened as a child development account, including savings
20 accounts, equity-based accounts that may reduce the amount of
21 risk as the child grows older, and other accounts that the
22 director may deem appropriate.



1 § -3 **Inalienability.** (a) Any assignment of, or
2 agreement to assign, investments under an account, and any
3 charge on or agreement to charge any such investments, shall be
4 void.

5 (b) On the bankruptcy of an eligible child by whom an
6 account is held, the entitlement to investments under the
7 account shall not pass to any trustee or other person acting on
8 behalf of the child's creditors.

9 (c) As used in this section:

10 "Assignment" includes assignation; and the term "assign"
11 shall be construed accordingly.

12 "Bankruptcy", in relation to an eligible child, includes
13 the sequestration of the child's estate.

14 "Charge on or agreement to charge" includes a right in
15 security over the account or an agreement to create a right in
16 security over the account.

17 § -4 **Opening a child development account; withdrawals;**
18 **transfers.** (a) At birth, the legal parent or parents, or legal
19 guardian may open an account for an eligible child with an
20 account provider; provided that an eligible child in whose name
21 an account has been opened who reaches the age of eighteen may
22 assume responsibility for the management of the account. Each



1 account provider shall report monthly to the director and the
2 director of finance the opening of any child development
3 accounts.

4 (b) No withdrawal may be made from a child development
5 account before the eligible child reaches the age of eighteen.

6 (c) An account held with one account provider may be
7 transferred to another account provider according to rules
8 adopted by the director in accordance with chapter 91.

9 § -5 Initial state contribution; subsequent state
10 contribution; annual contribution limits. (a) Upon receiving a
11 report from an account provider pursuant to section -4(a)
12 regarding the opening of an account, the director of finance
13 shall pay to the account provider maintaining the account an
14 initial contribution of \$; provided that state
15 contributions shall be made from general funds available
16 whenever the state general fund balance at the close of each of
17 two successive fiscal years exceeds five per cent of general
18 fund revenues for each of the two fiscal years.

19 (b) On receipt of a payment, the account provider shall
20 credit the account with the amount of the payment received.

21 (c) Any person may make contributions to an account after
22 the account is opened; provided that the maximum total annual



1 contribution that may be made to a single account shall be

2 \$.

3 § -6 **Exemption from tax.** All earnings or other gains
4 arising from a child development account shall be exempt from
5 chapter 235.

6 § -7 **Submission of information.** The director may
7 require any account provider, account holder, legal parents, or
8 legal guardian to submit any information regarding an account
9 that the director deems necessary and relevant to the proper
10 supervision and regulation of the account. The director may use
11 the information only to exercise the director's functions of
12 supervision of regulation of the accounts.

13 § -8 **Penalties.** (a) Any person who fraudulently:

14 (1) Applies to open or opens an account; or

15 (2) Makes a withdrawal from an account other than as
16 permitted under this chapter

17 shall be fined an amount not to exceed \$500.

18 (b) Any person who fraudulently or negligently provides
19 incorrect information required under section -7 shall be
20 fined an amount not to exceed \$5,000.

21 (c) Any person who fails to provide any information
22 required under section -7 shall be fined an amount not to



1 exceed \$500 for the initial violation and an amount not to
2 exceed \$100 for each day the violation remains uncorrected.

3 (d) Any account provider who fails to:

4 (1) Appropriately open an account based on a valid
5 application pursuant to subsection -4(a);

6 (2) Credit an account pursuant to section -5(b); or

7 (3) Comply with the annual contribution limits prescribed
8 under section -5(c),

9 shall be fined an amount not to exceed \$500 or \$5 for each
10 account affected, whichever amount is greater.

11 § -9 Rules. The director shall adopt all rules
12 necessary in accordance with chapter 91 to carry out the effect
13 of this chapter."

14 SECTION 3. Chapter 235, Hawaii Revised Statutes, is
15 amended by adding a new section to be appropriately designated
16 and to read as follows:

17 "§235- Child development account; exemption. All
18 amounts gained from a child development account under chapter
19 shall be exempt from this chapter; provided that any
20 loss of principal on the account shall not be considered a loss
21 for tax purposes under this chapter."

22 SECTION 4. New statutory material is underscored.



1 SECTION 5. This Act shall take effect on January 1, 2050;
2 and upon the enactment of an amendment to Section 6 of Article
3 VII of the Hawaii Constitution to amend the disposition of
4 excess revenues.



Report Title:

Child Development Account

Description:

Creates child development account. Requires State to pay \$
when account opens at birth. Limits annual contributions to
\$. Prohibits withdrawals before age 18. Exempts gains
from state income tax. Provides penalties. Requires director
of taxation to adopt rules. (HB884 HD1)

