

WRITTEN ONLY

TESTIMONY BY KALBERT K. YOUNG  
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON HIGHER EDUCATION  
ON  
HOUSE BILL NO. 55

February 3, 2011

RELATING TO COLLEGE SAVINGS PROGRAM TAX CREDIT

House Bill No. 55 proposes to provide a state income tax credit for contributions to the account of a designated beneficiary in the Hawaii college savings program established pursuant to chapter 256 of the Hawaii Revised Statutes.

The Department supports the intent of this bill that would provide individuals an incentive in the form of a State tax credit for contributions to the State of Hawaii's 529 College Savings Program (HI 529), which is administered by this Department, provided that the funding is consistent with the Biennium Executive Budget. We would like to see Hawaii's plan grow so that participants would benefit first of all, by encouraging families to save for college and secondly by decreasing of program fees as the size of the program increases.

Thank you for the opportunity to provide testimony on this bill.

NEIL ABERCROMBIE  
GOVERNOR

BRIAN SCHATZ  
LT. GOVERNOR



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## HOUSE COMMITTEE ON HIGHER EDUCATION

### TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 55 RELATING TO A COLLEGE SAVINGS PROGRAM TAX CREDIT

TESTIFIER:               FREDERICK D. PABLO, INTERIM DIRECTOR OF  
                                  TAXATION (OR DESIGNEE)  
COMMITTEE:             HED  
DATE:                     FEBRUARY 3, 2011  
TIME:                     2:30PM  
  
POSITION:                COMMENTS; CONCERNED WITH COSTS

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This bill proposes a nonrefundable tax credit for contributions to Hawaii's college savings program under Chapter 256, also known as "HI529." This bill takes effect upon approval and applies to taxable years beginning after December 31, 2012.

The Department of Taxation (Department) takes **no position** on this matter; however is **concerned with its revenue loss**.

#### I. **HAWAII'S 529 PLAN, 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. With the high costs of post-secondary education, it is important that investment vehicles with tax benefits be provided for those saving for college.

To ensure taxpayers take advantage of 529 programs, other states offer tax incentives including tax credits and deductions for contributions. The benefits of tax incentives are twofold:

1. Additional investment is attracted to Hawaii's plan, which commensurately lowers the cost of administering the fund for the fund participants; and
2. Additional investment is encouraged from taxpayers so that additional revenue will be saved for the plan beneficiaries, which will help lower the financial burden of college tuition and other costs.

**II. THIS LEGISLATION IS LAUDABLE, HOWEVER MAY BE COST PROHIBITIVE.**

The Department does not object to the concept of a tax incentive for college savings contributions. However, this measure could have considerable revenue impacts.

The Department recognizes the attractiveness of a tax credit; however the Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either.

This measure will result in an indeterminate revenue loss because the sliding scales are blank.



February 3, 2011  
2:30 p.m.  
Conference Room 309

TESTIMONY TO  
THE HOUSE COMMITTEE ON HIGHER EDUCATION

HB 55 – Relating to a College Savings Program Tax Credit

Dear Chair Nishimoto, Vice Chair Nakashima, and Members of the Committee:

My name is Robert Witt, executive director of the Hawaii Association of Independent Schools (HAIS), which represents 99 private and independent schools in Hawaii and educates over 33,000 students statewide.

Our association strongly supports HB 55, which provides taxpayers with a state tax deduction for contributions to Hawaii's college savings program.

This measure is in line with the Hawaii P-20 initiative which seeks, over the next ten years, to increase the percentage of adults with a four-year college degree. This bill would provide significant financial incentives for parents, grandparents and family members to save the funds necessary to send high school graduates to college.

Our association has supported the 529 College Savings Program for many years, posting information about the program on our website and allocating space in our annual private school guide to present families with information about how to participate. We have committed to advancing this program with an even greater number of families and working together with the State Department of Budget and Finance, will continue to add value to the program in the years ahead, beginning by advocating for the tax deduction proposed by this bill.

Thank you for this opportunity to testify.