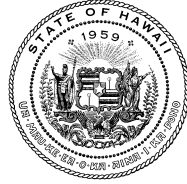


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To: The Honorable Sylvia Luke, Chair  
and Members of the House Committee on Finance

Date: Wednesday, February 22, 2017  
Time: 2:00 P.M.  
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: H.B. 1276, H.D. 1, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 1276, H.D. 1, which creates an income tax deduction for amounts paid as interest on repayments of student loans. The deduction is capped at an unspecified amount per taxpayer per year. The measure has a defective effective date of July 1, 2050 and applies to taxable years beginning after December 31, 2016.

The Department notes that the State already offers a deduction for amounts paid as interest on repayments of student loans, albeit at lower amounts and only for taxpayers below a certain income level. The current deduction is capped at \$2,500 per taxpayer, and phases out for taxpayers with Hawaii modified adjusted gross income of more than \$50,000 (\$100,000 for married filing jointly); for taxpayers whose modified adjusted gross income is over \$65,000 (\$130,000 for married filing jointly), they are not able to claim the deduction at all.

The House Committee on Higher Education made the Department's suggested amendments to this measure clarifying that the deduction provided by this measure is in addition to the existing deduction. Finally, the Department is able to implement this measure with the current effective date.

Thank you for the opportunity to provide comments.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Deduction for Qualified Student Loan Interest

BILL NUMBER: HB 1276, HD-1

INTRODUCED BY: House Committee on Higher Education

EXECUTIVE SUMMARY: Enacts a new income tax deduction for interest paid on qualified student loans. A direct appropriation would be preferable as it would provide some accountability for the taxpayer funds being utilized to support this effort. Meaning, we as taxpayers know what we're getting and we know how much we're paying for it.

SYNOPSIS: Amends HRS chapter 235 to add a section allowing as a deduction from gross income the amount, not to exceed \$\_\_\_\_\_, for amounts paid during the taxable year by an individual taxpayer for student loan interest paid on any qualified education loan as defined by Internal Revenue Code section 221. This is in addition to any other deduction provided under the income tax law.

EFFECTIVE DATE: July 1, 2050, shall apply to taxable years beginning after December 31, 2016.

STAFF COMMENTS: However laudable the idea of helping our students may be, what lawmakers and administrators have learned in these past few years is that unbridled tax incentives, where there is no accountability or limits on how much in deductions or credits can be claimed, can cost far beyond what was ever intended.

Instead, lawmakers should consider an appropriation of a specific number of taxpayer dollars, perhaps toward a rebate that students could apply for once they make a certain amount of interest payments. At least it would: (1) provide some accountability for the taxpayers' funds being utilized to support this effort; and (2) not be a blank check.

HD-1 added language that this deduction is in addition to any other deduction provided under chapter 235. Hawaii already provides a deduction for qualified student loan interest through conformity with IRC section 221. (We do not conform with treatment of qualified tuition and related expenses under IRC section 222.) So, the apparent intent is to allow a double deduction. We question whether that was intended, or, if it was intended, whether it is wise.

Digested 2/18/2017

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, February 21, 2017 9:52 AM  
**To:** FINTestimony  
**Cc:** micahalameda@gmail.com  
**Subject:** \*Submitted testimony for HB1276 on Feb 22, 2017 14:00PM\*

**HB1276**

Submitted on: 2/21/2017

Testimony for FIN on Feb 22, 2017 14:00PM in Conference Room 308

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Micah Alameda	Individual	Support	No

Comments:

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