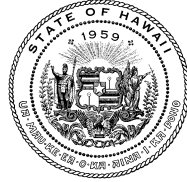


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DAMIEN A. ELEFANTE  
DEPUTY DIRECTOR

To: The Honorable Kaiali'i Kahele, Chair  
and Members of the Senate Committee on Higher Education

Date: Thursday, February 9, 2017  
Time: 2:00 P.M.  
Place: Conference Room 224, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: S.B. 1081, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of S.B. 1081, which creates an income tax deduction for amounts paid as interest on repayments of student loans. The deduction is capped at \$5,000 per taxpayer per year, 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 if filing jointly); for taxpayers whose modified adjusted gross income is over \$65,000 (\$130,000 if filing jointly), they are not able to claim the deduction at all.

If the Committee intends to move this bill forward and does not wish to offer both deductions, the Department suggests amending the current deduction, which is made operational under Section 235-2.3, Hawaii Revised Statutes, by conforming to Internal Revenue Code Section 221.

In the alternative, if the intent is to provide both deductions, the Department suggests amending subsection (a) to read:

(a) In addition to any other deduction provided by this chapter, there shall be allowed as a deduction from gross income the amount, not to exceed \$5,000, for amounts paid during the taxable year by an individual taxpayer for student loan interest paid on any qualified education loan as defined by title 26 United States Code section 221.

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

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126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

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**SUBJECT:** INCOME, Deduction for Qualified Student Loan Interest

**BILL NUMBER:** SB 1081; HB 1276 (Identical)

**INTRODUCED BY:** SB by K. KAHELE, GALUTERIA, Dela Cruz, Espero, Keith-Agaran, Taniguchi; HB by WOODSON, CREAGAN, LOPRESTI, NISHIMOTO, TOKIOKA

**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.

**BRIEF SUMMARY:** Amends HRS chapter 235 to add a section allowing as a deduction from gross income the amount, not to exceed \$5000, for amounts paid during the taxable year by an individual taxpayer for student loan interest paid on any qualified education loan as defined by title 26 United States Code section 221.

**EFFECTIVE DATE:** July 1, 2017.

**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.

Digested 2/2/2017

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Saturday, February 4, 2017 5:17 PM  
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**Subject:** Submitted testimony for SB1081 on Feb 9, 2017 14:00PM

**SB1081**

Submitted on: 2/4/2017

Testimony for HRE on Feb 9, 2017 14:00PM in Conference Room 224

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Alan Urasaki	Individual	Support	No

Comments: In support of this measure. Mahalo.

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**Sent:** Tuesday, February 7, 2017 6:58 PM  
**To:** HRE Testimony  
**Cc:** mendezj@hawaii.edu  
**Subject:** \*Submitted testimony for SB1081 on Feb 9, 2017 14:00PM\*

**SB1081**

Submitted on: 2/7/2017

Testimony for HRE on Feb 9, 2017 14:00PM in Conference Room 414

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Javier Mendez-Alvarez	Individual	Support	No

Comments:

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**To:** HRE Testimony  
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**Subject:** \*Submitted testimony for SB1081 on Feb 9, 2017 14:00PM\*

**SB1081**

Submitted on: 2/3/2017

Testimony for HRE on Feb 9, 2017 14:00PM in Conference Room 224

<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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