

DAVID Y. IGE  
GOVERNOR

SHAN TSUTSUI  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
FAX NO: (808) 587-1560

MARIA E. ZIELINSKI  
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE  
DEPUTY DIRECTOR

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

Date: Tuesday, March 14, 2017

Time: 1:15 P.M.

Place: Conference Room 414, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

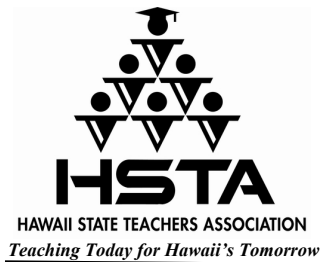
Re: H.B. 1276, H.D. 1, Relating to Taxation

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 the original version of 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.



1200 Ala Kapuna Street ♦ Honolulu, Hawaii 96819  
Tel: (808) 833-2711 ♦ Fax: (808) 839-7106 ♦ Web: www.hsta.org

Corey Rosenlee  
President  
Justin Hughey  
Vice President  
Amy Perruso  
Secretary-Treasurer  
Wilbert Holck  
Executive Director

TESTIMONY BEFORE THE SENATE COMMITTEE ON  
HIGHER EDUCATION

RE: HB 1276, HD1 – RELATING TO TAXATION.

TUESDAY, MARCH 14, 2017

COREY ROSENLEE, PRESIDENT  
HAWAII STATE TEACHERS ASSOCIATION

Chair Kahele and Members of the Committee:

The Hawaii State Teachers Association **strongly supports HB 1276, HD1,** taxation.

Recruiting and retaining talented teachers requires support for teacher training programs. Yet, the cost of completing a state approved teacher education program, like higher education costs generally, is spiraling upward. A 2014 study conducted by the New America Foundation found that the average master's in education degree graduate accumulated more than \$50,000 in debt while obtaining their M.A., nearly \$8,000 more than the average debt of master's in business administration graduates and a 66 percent increase since 2004. The foundation further noted that "the average newly minted teacher in 2012 has to pay \$429 a month in student debt payments."

College debt only exacerbates Hawai'i's low teacher compensation, which numerous studies show to be last in the nation when adjusted for cost of living. Approximately half of graduates in our state leave college indebted, according to LendEDU, a college loan consolidation and refinancing marketplace, with the average graduate's debt approaching \$24,000. Teacher pay, on the other hand, has failed to keep up with inflation, and now lags from \$4,000 to \$26,000 behind mainland districts, depending on a teacher's classification and years of service.

To prevent rising college tuition from worsening Hawai'i's teacher shortage, the Hawai'i State Teachers Association asks your committee to **support** this bill.

# 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