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LATE

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

Date: Thursday, February 1, 2018
Time: 1:15 P.M.
Place: Conference Room 224, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 3062, Relating to College Savings Accounts

The Department of Taxation (Department) provides the following comments regarding S.B. 3062 for your consideration.

S.B. 3062 creates an income tax deduction for contributions made to the Hawaii college savings program not to exceed \$5,000 per year (\$10,000 for taxpayers filing jointly), and not to exceed a lifetime cap of an unspecified amount. The bill specifies that if the amount of the deduction exceeds the taxpayer's income, the excess may be used as a deduction in future years until exhausted. The bill further provides that if the taxpayer makes a nonqualified withdrawal, the taxpayer's tax liability for that taxable year shall be increased by the amount deducted for the college savings program, in that year and in all prior years. The bill is effective upon approval and applies to taxable years beginning after December 31, 2017.

First, the Department notes that it is unclear from what amount the contribution to a college savings program can be deducted. In subsection (a), the bill says the contribution will be deducted from gross income. In subsection (d), the bill discusses the consequences of the amount of contribution exceeding taxable income rather than gross income. In subsection (e), the bill discusses recapture of amounts deducted from adjusted gross income. The Department suggests clarifying whether this deduction applies to gross income, adjusted gross income, or taxable income, it may do so by selecting one of the three and using it consistently in subsections (a), (d), and (e).

Second, the Department notes that the lifetime cap on deductible contributions in the third paragraph of subsection (a) may benefit from additional clarification. The language in this paragraph discusses the possibility of married taxpayers having separate college savings accounts, but it is unclear why this is relevant. The deduction is for contributions to the Hawaii college savings program. A taxpayer could make a series of contributions to Hawaii college

savings programs held by one, two, or several prospective college students holding accounts, and all of the contributions would be eligible for the deduction under this measure. It is also unclear what the consequences of divorce and remarriage might be on this lifetime cap. If a married taxpayer filing jointly has provided contributions in excess of the lifetime credit for a single taxpayer, but then becomes divorced, is the difference subject to recapture? If that taxpayer remarries before the statute of limitations has run, can the taxpayer file amended returns and be refunded the previously recaptured amount? The Department suggests clarifying these provisions.

Finally, the Department respectfully requests that the new deduction be made applicable to taxable years beginning after December 31, 2018. The Department is in the process of implementing individual income tax into its new computer system and additional time will allow the Department to properly implement new tax features such as deductions.

Thank you for the opportunity to provide comments.

LATE

SB-3062

Submitted on: 1/31/2018 9:24:07 PM

Testimony for HRE on 2/1/2018 1:15:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	OCC Legislative Priorities	Support	No

Comments:

**PRESENTATION OF THE
OAHU COUNTY COMMITTEE ON LEGISLATIVE PRIORITIES
DEMOCRATIC PARTY OF HAWAII
TO THE COMMITTEE ON HIGHER EDUCATION
THE SENATE
TWENTY-NINTH LEGISLATURE
REGULAR SESSION OF 2018
Thursday, February 1, 2018
1:15 p.m.
Hawaii State Capitol, Conference Room 224**

RE: Testimony in Support of SB 3062, RELATING TO TAXATION

To the Honorable Kaiali'i Kahele, Chair; the Honorable Donna Mercado Kim, Vice Chair, and Members of the Committee on Higher Education:

Good afternoon, my name is Melodie Aduja. I serve as Chair of the Oahu County Committee ("OCC") Legislative Priorities Committee of the Democratic Party of Hawaii. Thank you for the opportunity to provide written testimony on Senate Bill No. 3062, relating to the college savings program income tax credit. The OCC Legislative Priorities Committee is in favor of Senate Bill No. 3062 and support its passage.

Senate Bill No. 3062, is in accord with the Platform of the Democratic Party of Hawai'i ("DPH"), 2016, as it establishes a college savings income tax credit. Specifically, the DPH Platform provides that, "(c)onsistent with these goals, we

seek to make public college, public university, trade, mentorship and apprenticeship programs available to all seeking further education tuition free.” (Platform of the DPH, P. 6, Lines 318-319 (2016)).

Senate Bill No. 3062 establishes a college savings income tax credit. While it does not constitute tuition-free further education, a college savings income tax credit will assist students in their cost of education, therefore, it is the position of the OCC Legislative Priorities Committee to support this measure.

Thank you very much for your kind consideration.

Sincerely yours,

/s/ **Melodie Aduja**

Melodie Aduja, Chair, OCC Legislative Priorities Committee

Email: legislativepriorities@gmail.com, Tel.: (808) 258-8889

LATE

The State of Hawaii should allow state income tax deductions for contributions to a 529 savings plans.

According to the College Board, the average cost of tuition and fees for the 2017–2018 school year was \$34,740 at private colleges, \$9,970 for state residents at public colleges, and \$25,620 for out-of-state residents attending public universities. Combined with the increasing cost of going to college and the looming student loan crisis, it makes the reality of getting a college education unattainable for many Hawaii families.

In this environment, Hawaii parents need help to pay for their children’s college education. While student loans and financial aid are important to help Hawaii families pay for college, having a savings account specifically for a college education, especially if the savings account is created when the child is young, best promotes a critical “college-going mindset” that will ultimately serve Hawaii families well. Contributing to a college savings account, no matter the amount, over the years encourages a mindset that can directly result in increased college attendance for Hawaii’s children.

The State of Hawaii should allow state income tax deductions for contributions to a 529 savings plans. This will certainly incentivize many Hawaii parents to save for their children’s college costs. Let’s arm parents with as many options that incentivize and help them to save money on an ongoing basis for their child’s college education, where every contribution they make deepens their conviction to give their child the opportunity to pursue a college education.

Sincerely,
Darren Graves