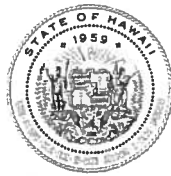


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EMPLOYEES' RETIREMENT SYSTEM  
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**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
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ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**WRITTEN ONLY**

TESTIMONY BY RODERICK K. BECKER  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
HOUSE BILL NO. 1469, H.D. 1

**February 21, 2019**  
**12:30 P.M.**  
**Conference Room 308**

RELATING TO THE COLLEGE SAVINGS PROGRAM

House Bill No. 1469, H.D. 1, proposes to provide for an annual state income tax deduction of up to \$5,000 per individual or \$10,000 for a married couple filing jointly, heads of household, or surviving spouses, for contributions made into an account owned by the taxpayer in Hawaii's 529 College Savings Program established pursuant to HRS chapter 256 and section 529 of the Internal Revenue Code. The Bill also proposes for the deduction to be carried forward into subsequent tax years and be subject to recapture if the taxpayer makes a subsequent nonqualified withdrawal or rolls the account into another state's college savings program.

The Department supports the intent of the bill to encourage and provide incentives for individuals and families to save funds for higher education but notes there may be a general fund tax impact of about \$4 million per year.

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



**STATE OF HAWAII  
DEPARTMENT OF TAXATION**

830 PUNCHBOWL STREET, ROOM 221  
HONOLULU, HAWAII 96813

<http://tax.hawaii.gov/>  
Phone: (808) 587-1540 / Fax: (808) 587-1560  
Email: Tax.Directors.Office@hawaii.gov

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

Date: Thursday, February 21, 2019  
Time: 12:30 P.M.  
Place: Conference Room 308, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: H.B. 1469, H.D. 1, Relating to the College Savings Program

The Department of Taxation (Department) offers the following comments on H.B. 1469, H.D. 1 for the Committee's consideration. A summary of the measure's key provisions are as follows:

- Creates a deduction from income tax for contributions made to an account in the Hawaii College Savings Program, up to \$5,000 per year for individual taxpayers or married taxpayer filing separately, and up to \$10,000 per year for taxpayers filing jointly, heads of household, or surviving spouses.
- Allows the deduction to be carried forward into subsequent tax years until exhausted if not entirely expended on the return filed for the year the contributions were made.
- The deduction is subject to 100% recapture if the taxpayer makes a subsequent nonqualified withdrawal from the Hawaii College Savings Program.
- It has a defective effective date of July 1, 2050 and otherwise applies to taxable years beginning after December 31, 2018.

First, the Department notes that this deduction would result in providing a double tax benefit as distributions from a qualified 529 plan are not subject to tax.

Second, the Department notes that it is unclear from what amount the contribution to the Hawaii 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 a contribution exceeding taxable income. In subsection (e), the bill discusses recapture of amounts deducted from adjusted gross income. The Department suggests clarifying from what amount contributions may be deducted and using that term consistently in subsections (a), (d), and (e). The Department's recommendation would be to allow the deduction from Hawaii adjusted gross income.

Lastly, the Department respectfully requests this measure be amended to apply to taxable years beginning after December 31, 2019.

Thank you for the opportunity to provide comments on this measure.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, College Savings Program Deduction

BILL NUMBER: HB 1469, HD-1

INTRODUCED BY: House Committee on Lower and Higher Education

EXECUTIVE SUMMARY: Proposes a deduction for contributions to a college savings program account. Other states offer similar incentives.

SYNOPSIS: Adds a new section to chapter 235, HRS, to allow a deduction for a contribution to an account established in the Hawaii college savings program under chapter 256, HRS.

The amount deductible is not to exceed \$5,000 (\$10,000 for married taxpayers filing a joint return or separate returns). Only amounts contributed within the taxable year count; if a contribution is mailed in, it counts if it is postmarked within the taxable year.

The deduction is not allowed for a contribution that is rolled over from another state's college savings program.

If the amount of the deduction exceeds the taxpayer's taxable income, the excess may be used as a deduction in subsequent taxable years until exhausted.

Provides for recapture of the deduction if the taxpayer makes a nonqualified withdrawal from the program.

Makes conforming amendments.

EFFECTIVE DATE: July 1, 2050; applicable to taxable years beginning after December 31, 2018.

STAFF COMMENTS: The Hawaii college savings program under chapter 256, HRS, is a college savings program intended to qualify under section 529, IRC.

Under the IRC, contributions to a 529 plan are not deductible, but the monies in the plan can earn income tax-free and will not be taxed when the money is taken out to pay for college.

Hawaii income tax law conforms to IRC section 529, with minor modifications such as a withdrawal is nonqualified for Hawaii purposes if it is used to purchase software. See section 235-2.4(hh), HRS, which decouples from IRC section 529(e)(3)(A)(iii).

According to [savingforcollege.com](http://savingforcollege.com), over 30 states currently offer a full or partial tax deduction or credit for 529 plan contributions. Hawaii does not.

Digested 2/17/2019

**HB-1469-HD-1**

Submitted on: 2/20/2019 11:54:27 AM

Testimony for FIN on 2/21/2019 12:30:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Melodie Aduja	O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i	Support	No

Comments: