

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
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ISAAC W. CHOY
DIRECTOR OF TAXATION

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DEPARTMENT OF TAXATION
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To: The Honorable Donna Mercado Kim, Chair;
The Honorable Michelle N. Kidani, Vice Chair;
and Members of the Senate Committee on Higher Education

From: Isaac W. Choy, Director
Department of Taxation

Date: Thursday, February 11, 2021
Time: 3:05 P.M.
Place: Via Videoconference, Hawaii State Capitol

Re: S.B. 358, Relating to the College Savings Program

The Department of Taxation (Department) offers the following comments on S.B. 358 for your consideration.

S.B. 358 creates a deduction from income tax for contributions made to an account in the Hawaii College Savings Program within specific limits and circumstances.

The Department first notes that this deduction would result in providing a double tax benefit as distributions from a qualified 529 plan are not subject to tax. From a tax policy perspective, the Department does not believe that it is appropriate to allow a double tax benefit as this measure proposes.

In addition, the Department notes that the definition of "qualified taxpayer" beginning on page 5 line 16 of the bill should be amended to read:

"Qualified taxpayer" means an individual taxpayer or a married couple filing separate returns each with an adjusted gross income of less than \$_____ or a married couple filing a joint return, head of household, or surviving spouse with an adjusted gross income of less than \$_____.

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

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

ROBERT YU
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
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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 CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON HIGHER EDUCATION
ON
SENATE BILL NO. 358

February 11, 2021
3:05 P.M.
Via Videoconference

RELATING TO COLLEGE SAVINGS PROGRAM

Senate Bill No. 358, proposes to provide for an annual state income tax deduction of \$4,000 per individual or \$8,000 for a married couple filing jointly, against taxable income, for contributions made to a college savings plan established under section 529 of the Internal Revenue Code (commonly known as 529 college savings plans).

The Department provides comments and appreciates the intent of the bill to encourage and provide incentives for individuals and families to save and invest funds for higher education.

In 2002, the State of Hawaii legislature established the state's 529 college savings program pursuant to Chapter 256 Hawaii Revised Statutes. Administered by the Department of Budget & Finance, "HI529 Hawaii's College Savings Program" exists to assist and encourage families to set aside funds for future college and higher education expenses. As currently written, S.B. 358 would allow a Hawai'i state income

tax deduction for contributions made to any state's 529 plan. Opening the deduction up to any 529 plan would cause unknown revenue loss, as the number of state tax-filing individuals that have any of the nation's over one-hundred 529 plans, is unknown and may be substantial.

If the Legislature proceeds with S.B. 358, the bill could be amended to provide that the deduction from taxable income be available to only those residents who participate in the State's HI529 program. As of December 2020 HI529 program information available, if all Hawai'i-based account owners contributed the maximum deduction for a single state tax-filer at the maximum tax rate, the potential revenue loss would be about \$1.5 million annually. This amount is likely to increase as the income tax deduction would incentivize residents to save more money using the program.

In closing, the Department recognizes that a tax deduction would provide a significant incentive to Hawai'i families to save for college. Thank you for your consideration of our comments.



February 9, 2021

The Honorable Donna Mercado Kim, Chair
The Honorable Michelle N. Kidani, Vice-Chair
Senate Committee on Higher Education
Hawaii State Capitol
415 South Beretania St.
Honolulu, HI 96813

RE: Support of S.B. 358, Relating to the College Savings Program

Dear Chair Kim, Vice Chair Kidani, and Members of the Senate Committee on Higher Education:

The Securities Industry and Financial Markets Association (“SIFMA”)¹ is a national trade association representing over 350 large, medium and small broker-dealers, investment banks and asset managers, many of whom have a strong presence in Hawaii. In fact, more than 16,000 people in the state work in the finance and insurance industries, 1,000 of them work at securities firms, and 5 broker-dealer main offices call Hawaii home.

SIFMA strongly supports S.B. 358, which would allow Hawaii residents to deduct contributions to any qualifying 529 plan from their gross income for state income tax purposes. We believe the bill properly encourages college savings, appropriately provides investors with various 529 savings options, and helps ensure an educated population for years to come. We hope the legislature will take the following points into account when considering the bill:

- **A College Education Benefits Hawaii.** The benefits of a college education are well-documented. A 2019 College Board [report](#) concluded, among other things, that college graduates have substantially higher median incomes, pay more taxes, have lower unemployment rates, and are healthier and more involved in their communities.² Among its findings, in 2018:
 - Median earnings of full-time workers with bachelor’s degrees were 61% higher than those with only a high school diploma.
 - Four-year college graduates paid on average 82% more in taxes than high school graduates. Those with professional degrees paid more than three times as much in taxes.

¹ SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

² College Board, “Education Pays 2016.”

- The unemployment rate for individuals age 25 and older with at least a bachelor's degree has consistently been about half the unemployment rate for high school graduates.
- Over the course of a lifetime, and accounting for the costs of obtaining a degree, individuals with a bachelor's degree earn about \$400,000 more than individuals with just a high school diploma.
- **College Tuition Costs are Increasing Faster than Inflation.** College costs have outpaced inflation nearly every year since the early 1980s³ – sometimes reaching as high as 9.5% above the rate of inflation. In the last 5 years, tuition and fees have [risen](#) by about 7% for a public four-year program and 10% at private non-profit four-year programs, adjusted for inflation.⁴ In the last ten years, college costs at both public and private institutions have [risen](#) more than 25%.
- **529 College Savings Plans are One of the Best Ways to Pay for College.** Many entities, including Kiplinger's and savingforcollege.com, believe that 529 plans are one of the best college savings vehicles. These plans are appealing because they encourage ongoing savings, earnings on these plans are free from federal and state taxes, and in some states, contributions are deductible for state income tax purposes.
- **An Upfront State Tax Deduction for All Qualified 529 Plans Will Further Incentivize Hawaiians to Save.** An upfront state tax deduction for 529 contributions will encourage Hawaii residents to save early and often for future college expenses. It is important, however, that the deduction apply to all qualified 529 plans – which S.B. 358 does - and not just the state-sponsored plan.

There are a lot of factors to consider when choosing the right 529 plan. This includes the investor's risk tolerance, the fees charged, the plan's past performance, the ability to work with a trusted adviser, and any number of other considerations. A tax deduction for just the state-sponsored plan effectively limits investor choice by making the driving factor where the deduction is available rather than which 529 plan best suits the college saver's overall needs.

A state tax deduction for contributions to all qualified 529 plans provides additional benefits. Among other things, it:

- Allows savers to work with financial advisors to save through a 529 plan;
 - Ensures that all Hawaii savers receive the same tax treatment;
 - Encourages new Hawaii residents to continue contributing to their existing 529 plans; and
 - Allows savers to work with a single financial institution on their lifetime savings goals.
- **Tax Deductions for Contributions to Any Qualified 529 Plan Has Been Successful in Other States.** Arizona, Arkansas, Kansas, Minnesota, Missouri, Montana and Pennsylvania all currently provide a state tax deduction for contributions to any qualified 529 plan. Arizona implemented its deduction and found it so successful that the state subsequently more than doubled the deduction's limit to further spur education-related savings. Minnesota – the most

³ Bloomberg Business, "College Tuition in the U.S. Again Rises Faster Than Inflation." Nov. 2014.

⁴ College Board, "Tuition and Fees and Room and Board Over Time, 1988-89 to 2018-19, Selected Years."

recent state to adopt a tax deduction of any type for 529 college savings plans – chose to apply that deduction to all qualified plans in 2017.

For the reasons laid out above, SIFMA strongly supports SB 358. We appreciate your willingness to receive our comments. If you have any questions, please contact me at kchamberlain@sifma.org or 202-962-7411.

Sincerely,

A handwritten signature in black ink that reads "Kim Chamberlain". The signature is written in a cursive style with a large, stylized initial "K".

Kim Chamberlain
Managing Director & Associate General Counsel
SIFMA



February 10, 2021

The Honorable Donna Mercado Kim, Chair
The Honorable Michele Kidani, Vice Chair
Senate Committee on Higher Education
Hawaii State Capitol
415 South Beretania St.
Honolulu, HI 96813

RE: SB 358, Relating to the College Saving Program. STRONGLY SUPPORT

Dear Chair Mercado Kim, Vice Chair Kidani, and members of the Higher Education Committee:

The Securities Industry Association of Hawaii (SIAH) was formed over 20 years ago to foster communication among securities firms, regulators, and the legislature.

The SIAH is very pleased to see the proposal to allow for a state tax deduction for contributions to 529 plans.

1. **The benefits of a college education are well documented.** There have been numerous studies that show that college graduates are healthier, have higher incomes, pay more taxes,, and are less likely to rely on public assistance.
2. **A tax deduction will give that little extra push to make frequent and regular contributions.** The ability to choose from a wide variety of plans also allows for investors to work with an advisor or go direct to the plan sponsor.
3. **Saving before college is much better than paying off a loan later.** The power of putting money aside to grow can be shown by one study that found that \$105 per month for 18 years is far better than paying off a loan at \$424 per month for 10 years after college.

The SIAH is please to strongly support the bill. Please call me with any questions.at 808-625-2596

Sincerely,

A handwritten signature in black ink, appearing to read "Tony Goodrum", written over a white background.

Tony Goodrum
President

SB-358

Submitted on: 2/5/2021 5:31:44 PM

Testimony for HRE on 2/11/2021 3:05:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Elizabeth Bishop	Individual	Support	No

Comments:

Please support this important bill that will help make college education a reality for many of our keiki.