

Honolulu, Hawaii

FEB 19 2021

RE: S.B. No. 358  
S.D. 1

Honorable Ronald D. Kouchi  
President of the Senate  
Thirty-First State Legislature  
Regular Session of 2021  
State of Hawaii

Sir:

Your Committee on Higher Education, to which was referred  
S.B. No. 358 entitled:

"A BILL FOR AN ACT RELATING TO THE COLLEGE SAVINGS PROGRAM,"

begs leave to report as follows:

The purpose and intent of this measure is to establish a  
state income tax deduction for eligible contributions to any  
college savings program established under section 529 of the  
Internal Revenue Code (IRC), with certain limits.

Your Committee received testimony in support of this measure  
from the Securities Industry and Financial Markets Association,  
Security Industry Association of Hawaii, and one individual. Your  
Committee received comments on this measure from the Department of  
Budget and Finance and Department of Taxation.

Your Committee finds that in 2002, the Legislature  
established the State's College Savings Program pursuant to  
chapter 256, Hawaii Revised Statutes, and section 529 of the  
Internal Revenue Code of 1986, as amended. Administered by the  
Department of Budget and Finance, the "HI529-Hawaii's College  
Savings Program" (HI529 Program) exists to assist and encourage  
families to set aside funds for future college and higher  
education expenses by exempting investment income earned under the  
program from federal and state taxes; provided that the funds are  
used for qualified higher education expenses.



Your Committee finds that the benefits of a college education are well-documented. A recent study by the College Board has 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. However, the cost to attend college has been increasing significantly. Since the early 1980s, the increase in college costs have outpaced inflation nearly every year, sometimes reaching as high as 9.5 percent above the rate of inflation. In the last five years, college tuition and fees have risen by about seven percent for a public four-year program and ten percent at private non-profit four-year programs, adjusted for inflation. In the last ten years, college costs at both public and private institutions have risen more than twenty-five percent.

Your Committee finds that most other states offer a state tax deduction or credit for contributions into college savings programs as an incentive for their residents' participation. This measure, which provides a similar incentive by establishing an upfront state tax deduction for contributions paid into any state college savings program established under section 529 of the IRC, will further encourage Hawaii residents to save early and often for future college expenses as an alternative to taking out educational loans.

Your Committee also notes the concerns raised by the Department of Budget and Finance regarding the scope of this measure. Based on information on the HI529 Program as of December 2020, if all Hawaii account owners contributed into the HI529 Program, assuming the maximum deductible amount for a single state tax-filer at the maximum tax rate, the potential revenue loss for the State would be approximately \$1.5 million per year. The potential revenue loss for the State will be significantly greater if the tax deduction is applied to contributions into all 529 college savings programs.

Accordingly, your Committee has amended this measure by:

- (1) Amending sections 2 and 3 by:



- (A) Limiting the application of the Hawaii income tax deduction to contributions into the HI529 Program; and
  - (B) Amending the definition of "qualified taxpayers" to limit the definition to residents of the State of Hawaii; and
- (2) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Higher Education that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 358, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 358, S.D. 1, and be referred to your Committee on Ways and Means.

Respectfully submitted on  
behalf of the members of the  
Committee on Higher Education,



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DONNA MERCADO KIM, Chair



The Senate  
Thirty-First Legislature  
State of Hawai'i

**Record of Votes**  
**Committee on Higher Education**  
**HRE**

Bill / Resolution No.:*	Committee Referral:	Date:		
SB 358	HRE, WAM	2/16/21		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
KIM, Donna Mercado (C)	✓			
KIDANI, Michelle N. (VC)	✓			
KEITH-AGARAN, Gilbert S.C.	✓			
WAKAI, Glenn	✓			
FEVELLA, Kurt	✓			
<b>TOTAL</b>	5	0	0	0
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: <div style="text-align:center; font-family: cursive; font-size: 1.2em;">Michelle N. Kidani</div>				
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\*Only one measure per Record of Votes