



**STATE OF HAWAII**  
STATE COUNCIL  
ON DEVELOPMENTAL DISABILITIES  
PRINCESS VICTORIA KAMĀMALU BUILDING  
1010 RICHARDS STREET, Room 122  
HONOLULU, HAWAII 96813  
TELEPHONE: (808) 586-8100 FAX: (808) 586-7543  
March 17, 2023

The Honorable Representative Amy A. Perruso, Chair  
House Committee on Higher Education & Technology  
The Thirty-Second Legislature  
State Capitol  
Honolulu, Hawai'i 96813

Dear Representative Perruso and Members of the Committee:

SUBJECT: SB281 SD2 – Relating to the College Savings Program

The State Council on Developmental Disabilities **SUPPORTS SB281 SD2**, which establishes a state income tax deduction for eligible contributions made to any college savings program established under section 529 of the Internal Revenue Code.

The Council respectfully requests that the Hawai'i Achieving a Better Life Experience (ABLE) Act be added into this measure. The Able Act was signed into law by President Obama in 2014. Governor David Ige signed into law Hawai'i ABLE Savings Program or known as Act 206, SLH 2015. These accounts allow for individuals with disabilities to open special accounts which allows them to save up to \$100,000.00 without risking their eligibility for Social Security and Medicaid coverage.

ABLE accounts can be used to help a qualified individual achieve a better life experience; expenses covered includes such things as; pay for education, housing, transportation, employment training, and health services. The ABLE account was created out of the HI529 and is compatible with the proposed college saving program in this measure. **The Council respectfully requests replacing "Hawaii's college savings program" to "Hawaii's College and ABLE Savings Program"**.

The inclusion of the ABLE account within this measure will broaden its reach to include persons with disabilities within the sphere of tax deductions. Allowing for more people with disabilities to apply and know of ABLE accounts as well as enhance the educational opportunities of the disability community.

Thank you for the opportunity to submit testimony **supporting SB281 SD2**.

Sincerely,

Daintry Bartoldus  
Executive Administrator

JOSH GREEN M.D.  
GOVERNOR

SYLVIA LUKE  
LT. GOVERNOR



STATE OF HAWAII  
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau  
P.O. BOX 259

HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
FAX NO: (808) 587-1560

GARY S. SUGANUMA  
DIRECTOR

KRISTEN M.R. SAKAMOTO  
DEPUTY DIRECTOR

**TESTIMONY OF  
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

**TESTIMONY ON THE FOLLOWING MEASURE:**

S.B. No. 281, S.D.2, Relating to the College Savings Program

**BEFORE THE:**

House Committee on Higher Education & Technology

**DATE:** Friday, March 17, 2023

**TIME:** 3:35 p.m.

**LOCATION:** State Capitol, Room 309

Chair Perruso, Vice-Chair Kapela, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding S.B. 281, S.D.2, for your consideration.

S.B. 281, S.D.2, creates a deduction from income tax for contributions made to any college savings program established pursuant to section 529 of the Internal Revenue Code (IRC). The deductions are capped at \$4,000 for single and married couples filing separate returns and \$8,000 for married filing joint returns, heads of household, and surviving spouses. Additionally, the taxpayer's adjusted gross income must be less than the unspecified amount. Rollovers from one state's college savings programs into another state's college savings program are not eligible for the tax deduction. The measure provides that if the deduction exceeds the taxpayer's tax liability, the remaining credit may be carried forward for up to four years until exhausted. The bill is effective July 1, 2050 and applies to taxable years beginning after an unspecified date.

First, the Department appreciates that the Senate Committee on Ways and Means incorporated the Department suggested clarifying amendment to the new section 235-\_\_\_(d) by adding the wording "whichever occurs first" at the end of the paragraph.

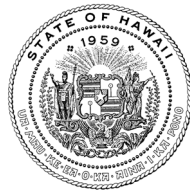
Second, the Department notes that the contributions to accounts established pursuant to section 529, IRC, grow tax free, and qualifying distributions from the account are not subject to tax. The bill will add another tax benefit to college savings program accounts by making the contribution deductible from Hawai'i adjusted gross income.

Third, because the bill imposes limits on adjusted gross income, the Department recommends that married couples be required to file joint returns. This will help to avoid inequalities. For example, assume the income thresholds are set at \$100,000 for married filing separate and \$200,000 for married filing joint. Further, assume that Taxpayers A, who file as married filing separate, have income of \$50,000 and \$350,000, and Taxpayers B, who file joint, have income of \$250,000. Taxpayers A, with a total income of \$400,000, will be able to claim a \$4,000 deduction (for one spouse), whereas Taxpayers B, with a total income of \$250,000, will not qualify for any deduction.

Finally, the Department notes that it will be able to implement this bill for taxable years beginning after December 31, 2022.

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

JOSH GREEN, M.D.  
GOVERNOR



LUIS P. SALAVERIA  
DIRECTOR

SABRINA NASIR  
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**  
*Ka 'Oihana Mālama Mo'ohelu a Kālā*  
P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT

**WRITTEN ONLY**

TESTIMONY BY LUIS P. SALAVERIA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE HOUSE COMMITTEE ON HIGHER EDUCATION & TECHNOLOGY  
ON  
SENATE BILL NO. 281, S.D. 2

**March 17, 2023**  
**3:35 P.M.**  
**Room 309 and Videoconference**

RELATING TO THE COLLEGE SAVINGS PROGRAM

Senate Bill No. 281, S.D. 2 proposes to provide for an annual state income tax deduction of \$4,000 per qualified individual or \$8,000 for qualified taxpayers filing joint returns, heads of household, or surviving spouses, against taxable income, for contributions (net of qualified withdrawals made in the same year for that designated beneficiary) to an account in a college savings program established under section 529 of the Internal Revenue Code (commonly known as 529 college savings plans). The measure allows the state tax deduction for contribution made to any state's college savings plan and does not limit it to Hawai'i's College Savings Program established under HRS chapter 256 (HI529 plan).

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, instead of taking out more loans.

However, this measure would allow a Hawai'i state income tax deduction for contributions made to any college savings program established under section 529 of the Internal Revenue Code. The number of state-tax filing individuals that have any of the Nation's over ninety college savings 529 plans, is unknown and the revenue loss cannot be estimated for contributions made to those plans. Limiting a deduction from income only those taxpayers who participate in the State's HI529 program may help facilitate revenue loss estimates, as we have program information available for the State plan. For example, based on HI529 program information available as of December 2022, if all Hawai'i-based account owners with funds in their accounts, 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 (more if future eligible contributions increased).

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.

**SB-281-SD-2**

Submitted on: 3/16/2023 10:35:52 AM

Testimony for HET on 3/17/2023 3:35:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Earl Goodrum	Securities Industry Association of Hawaii	Support	Written Testimony Only

Comments:

Aloha Chair Perruso and members of the House Committee on Higher Education & Technology

The Securities Industry Association of Hawaii (SIAH) is an organization formed over 20 years ago comprised of local branch office managers of the majority of national securities firms.

We strongly support the passage of SB 281 SD2.

Mahalo

T Goodrum, President SIAH.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Deduct contributions to HI529 college savings program

BILL NUMBER: SB 281 SD 2

INTRODUCED BY: Senate Committee on Ways and Means

EXECUTIVE SUMMARY: Establishes a state income tax deduction for eligible contributions made to any college savings program established under section 529 of the Internal Revenue Code.

SYNOPSIS: Adds a new section to chapter 235, HRS, to allow a deduction for a contribution to an account in a college savings program established under section 529 of the Internal Revenue Code of 1986, as amended.

The amount deductible is not to exceed \$4,000 (\$8,000 for married taxpayers filing a joint return, heads of household, or surviving spouses). 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 “above the line,” meaning that it is deducted when computing the taxpayer’s Hawaii adjusted gross income, unlike most itemized deductions.

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 for up to four subsequent tax years or until the excess deduction is exhausted, whichever occurs first.

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

Defines “qualified taxpayer” as a resident of the State who is 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 \$\_\_\_\_\_.

Defines “rollover” as a distribution or transfer from an account that is transferred to or deposited within sixty calendar days of the distribution into an account of the same person for the benefit of the same designated beneficiary or another person who is a member of the family of the designated beneficiary; provided that the transferee account was created under a college savings program maintained in accordance with section 529 of the Internal Revenue Code of 1986, as amended, or successor legislation.

Amends section 23-95, HRS, requiring a periodic review by the State Auditor of this, among other tax incentives.

Makes conforming amendments.

EFFECTIVE DATE: July 1, 2050; taxable years beginning after an unspecified date.

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(ii), HRS, which decouples from IRC section 529(e)(3)(A)(iii).

According to savingforcollege.com, <https://www.savingforcollege.com/intro-to-529s/name-the-top-7-benefits-of-529-plans>, over 30 states currently offer a full or partial tax deduction or credit for 529 plan contributions. Hawaii offers none of those incentives.

Digested: 3/16/2023



**SB-281-SD-2**

Submitted on: 3/16/2023 4:52:01 PM

Testimony for HET on 3/17/2023 3:35:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Kianna Meimer	Individual	Support	Written Testimony Only

Comments:

I am in support of the bill because it encourages students to invest in their future by paying less. This will result in more students receiving a higher education ultimately benefitting them and the industries they will become involved in.

**SB-281-SD-2**

Submitted on: 3/16/2023 5:05:37 PM

Testimony for HET on 3/17/2023 3:35:00 PM

Submitted By	Organization	Testifier Position	Testify
Alexander Meimer	Individual	Support	Written Testimony Only

Comments:

**With the raising costs of education, and everything else in Hawaii, parents should be encouraged to save for the education of their children. We know that a college education leads to a higher average income which will in term benefit the sate by taxes collected on those higher incomes.**

**SB-281-SD-2**

Submitted on: 3/16/2023 5:06:42 PM

Testimony for HET on 3/17/2023 3:35:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Kelly Shota	Individual	Support	Written Testimony Only

Comments:

Most states that have an income tax allow either a deduction from income or a state tax credit for 529 plan contributions when reporting income for state tax purposes.

Some of these states offer a state income tax benefit for contributions to any 529 plan. We are one of the few states that have a state income tax but don't offer a deduction for contributions.

The cost of education is rising and have significantly outpaced the rise of inflation for decades. Hawaii residents need to be supported in their efforts to educate their children. I urge you to support this bill.

**SB-281-SD-2**

Submitted on: 3/16/2023 6:36:08 PM

Testimony for HET on 3/17/2023 3:35:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Katrina Dangleman	Individual	Support	Written Testimony Only

Comments:

I work as a Financial Advisor, the passsge of this bill will provide incentive for families to put money away for college which will result in more funds being saved for the purpose of education. Having more money saved for college means less use of debt and financial strain on families. Tax incentives are always a big motivator for people when considering a savings strategy.

**Senate Bill 281 - Tax deduction for Hawai'i Families on All Contributions to Any 529 Plans**

***Senate Bill 281 - Tax Deduction to Contributions Made to Any 529 College Savings Plan***

To support the intent of helping Hawai'i families needing assistance, we believe the following are filers to holes, addressing income limits, tax deductible contributions and adding the definition of Non-Qualified Withdrawals, which disqualify folks who may make a quick deposits and withdrawal to take advantage of the tax deduction.

**Income Limits** - It is difficult to determine the exact income level for working taxpaying families that would qualify for such deduction. It is recommended that the legislation follow the lead of the Internal Revenue Code as to the income level to qualify to contribute to a Roth IRA which, for 2023, is modified adjusted gross income below \$152,999 for single filers and below \$227,999 for married filing jointly. This would apply federal standards, so that the upper income taxpayers would not unnecessarily benefit since they are more capable of funding their college saving accounts without such assistance. This cross-reference to the federal Roth funding income limits would then automatically be adjusted for inflation annually. Thus, Section 235 (f) shall provide "Qualified taxpayer" means an individual taxpayer or a married couple filing separate returns, whose income level qualifies to contribute to a Roth IRA under Internal Revenue Code §408A(c)(3), each member of a married couple filing a joint return, head of household, or surviving spouse qualifying to contribute to a Roth IRA under Internal Revenue Code §408A(c)(3).

**Tax Deduction** - The tax deduction for single filers shall be \$4,000 and joint filers shall be \$8,000.

**Non-Qualified Withdrawals** - Contributions to a college savings program that have been deducted from the qualified taxpayer's Hawaii adjusted gross income for prior taxable years shall be subject to recapture and penalties pursuant to section 529(c)(6) of the Internal Revenue Code of 1986, as amended, or successor legislation, if the qualified taxpayer makes a subsequent nonqualified withdrawal from a college savings program that results in an additional tax penalty under such section 529 (c)(6) of the Internal Revenue Code of 1986, as amended, or successor legislation. The contribution shall be recaptured by adding the amount previously deducted, not to exceed the amount of such nonqualified withdrawal, to the qualified taxpayer's Hawaii adjusted gross income for the tax year in which such nonqualified withdrawal occurred.

Thank you,

Donn Ariyoshi  
808-525-6909  
donnariyoshi@gmail.com

**SB-281-SD-2**

Submitted on: 3/17/2023 9:21:40 AM

Testimony for HET on 3/17/2023 3:35:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Guy Fujishige	Individual	Support	Written Testimony Only

Comments:

With the rising cost and necessity of College Education along with the already high cost of living which is climbing SB281 is essential for Hawaii Families.