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# A BILL FOR AN ACT

RELATING TO THE COLLEGE SAVINGS PROGRAM.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. In 2002, the State established a college  
2 savings program called "TuitionEDGE", pursuant to chapter 256,  
3 Hawaii Revised Statutes, and section 529 of the Internal Revenue  
4 Code of 1986, as amended. In November 2007, the program was  
5 revised and renamed as "HI529-Hawaii's College Savings Program"  
6 (HI529 Program). The program assists and encourages families to  
7 save and invest funds for future higher education expenses. The  
8 investment income earned under the program is exempt from  
9 federal and state taxes; provided that the funds are used for  
10 qualified higher education expenses, including for  
11 apprenticeship programs and to pay student loans, as authorized  
12 by recent amendments to section 529 of the Internal Revenue Code  
13 of 1986.

14           The legislature further finds that most other states offer  
15 a state tax deduction or credit for contributions to state  
16 college savings programs as an incentive for their residents to  
17 participate. The legislature therefore finds that, as the cost



1 of higher education continues to rise, it is appropriate for the  
2 State to provide a similar incentive to Hawaii taxpayers to  
3 participate in the HI529 Program, thus helping Hawaii families  
4 save for college instead of taking out educational loans.

5 The purpose of this Act is to provide a state income tax  
6 deduction for Hawaii residents making contributions into the  
7 HI529 Program.

8 SECTION 2. Chapter 235, Hawaii Revised Statutes, is  
9 amended by adding a new section to be appropriately designated  
10 and to read as follows:

11 "§235- Hawaii college savings program. (a) There  
12 shall be allowed as a deduction from the Hawaii adjusted gross  
13 income of a qualified taxpayer, contributions made to an account  
14 in a college savings program established under chapter 256 and  
15 section 529 of the Internal Revenue Code of 1986, as amended, or  
16 successor legislation hereinafter referenced as the  
17 "HI529-Hawaii's college savings program"; provided that the  
18 annual deductions for the contributions shall be up to:

19 (1) \$4,000 for qualified taxpayers filing a single return  
20 and for married couples filing separate returns;



1           provided that each spouse may claim a deduction of up  
2           to \$4,000; and  
3           (2) \$8,000 for qualified taxpayers filing joint returns,  
4           heads of household, or surviving spouses; provided  
5           that the deduction shall be available to married  
6           couples filing joint returns if at least one spouse is  
7           an account owner in the HI529-Hawaii's college savings  
8           program;  
9           provided further that only a qualified taxpayer who is an  
10          account owner in the HI529-Hawaii's college savings program  
11          shall be allowed to claim the applicable deduction for  
12          contributions made by the qualified taxpayer into the qualified  
13          taxpayer's account in the HI529-Hawaii's college savings  
14          program; and provided further that any contributions made to the  
15          qualified taxpayer's account in the HI529-Hawaii's college  
16          savings program for a designated beneficiary shall be reduced by  
17          any withdrawals made for qualified higher education expenses  
18          during the same year for that designated beneficiary.

19           (b) In order to be deductible for a particular taxable  
20          year, a contribution shall be credited to the qualified  
21          taxpayer's account in the HI529-Hawaii's college savings program



1 on or before the last day of that taxable year; provided that if  
2 a contribution is delivered by mail, it shall be postmarked on  
3 or before the last day of that taxable year.

4 (c) Rollovers from the HI529-Hawaii's college savings  
5 program into another state's college saving program shall not be  
6 considered as contributions eligible for the tax deduction under  
7 this section.

8 (d) If the amount of the contribution to the qualified  
9 taxpayer's account in the HI529-Hawaii's college savings program  
10 exceeds the maximum deduction for the taxable year in which the  
11 contribution is made pursuant to subsection (a), the excess  
12 deduction may be used as a deduction against the qualified  
13 taxpayer's Hawaii adjusted gross income for up to four  
14 subsequent tax years until the excess deduction is exhausted.

15 (e) Contributions to the HI529-Hawaii's college savings  
16 program that have been deducted from the qualified taxpayer's  
17 Hawaii adjusted gross income for prior taxable years shall be  
18 subject to recapture and penalties pursuant to section 256-4 if  
19 the qualified taxpayer makes a subsequent nonqualified  
20 withdrawal from a college savings program. The contribution  
21 shall be recaptured by adding the amount previously deducted,



1 not to exceed the amount of the nonqualified withdrawal, to the  
2 qualified taxpayer's Hawaii adjusted gross income for the tax  
3 year in which the nonqualified withdrawal occurred.

4 (f) As used in this section:

5 "Contribution" means:

6 (1) Any payment directly allocated to an account of the  
7 HI529-Hawaii's college savings program for the benefit  
8 of a designated beneficiary, or used to pay  
9 administrative fees associated with the account; and

10 (2) The portion of any rollover amount treated as a  
11 contribution under section 529 of the Internal Revenue  
12 Code of 1986, as amended, or successor legislation.

13 "Qualified higher education expenses" shall have the same  
14 meaning as in section 256-1.

15 "Qualified taxpayer" means a resident of the State who is  
16 an individual taxpayer or a married couple filing separate  
17 returns each with an adjusted gross income of less than  
18 \$ \_\_\_\_\_ or a married couple filing a joint return, head of  
19 household, or surviving spouse with an adjusted gross income of  
20 less than \$ \_\_\_\_\_.



1       "Rollover" means a distribution or transfer from an account  
2 that is transferred to or deposited within sixty calendar days  
3 of the distribution into an account of the same person for the  
4 benefit of the same designated beneficiary or another person who  
5 is a member of the family of the designated beneficiary;  
6 provided that the transferee account was created under chapter  
7 256 or another college savings program maintained in accordance  
8 with section 529 of the Internal Revenue Code of 1986, as  
9 amended, or successor legislation."

10       SECTION 3. Section 23-95, Hawaii Revised Statutes, is  
11 amended by amending subsection (c) to read as follows:

12       "(c) This section shall apply to the following:

- 13       (1) Section 235-5.5--Deduction for individual housing  
14             account deposit;
- 15       (2) Section 235-7(f)--Deduction of property loss due to a  
16             natural disaster;
- 17       (3) Section 235-16.5--Credit for cesspool upgrade,  
18             conversion, or connection;
- 19       (4) Section 235-19--Deduction for maintenance of an  
20             exceptional tree;





# S.B. NO. 281

**Report Title:**

College Savings Program; Income Tax Deduction

**Description:**

Establishes a state income tax deduction for eligible contributions made by residents of the State into the HI529-Hawaii's College Savings Program.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

