

STAND. COM. REP. NO.

2042

Honolulu, Hawaii

FEB 04 2008

RE: S.B. No. 2660
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2008
State of Hawaii

Madam:

Your Committee on Education, to which was referred S.B. No. 2660 entitled:

"A BILL FOR AN ACT RELATING TO COLLEGE SAVINGS PROGRAMS,"

begs leave to report as follows:

The purpose of this measure is to provide an annual maximum income tax deduction of \$5,000 per individual or \$10,000 for a married couple filing jointly for contributions made to a section 529 college savings program in calendar year 2008 and beyond.

Testimony in support of the measure was submitted by the Department of Taxation and three individuals. Comments on the measure were also submitted by the Department of Budget and Finance.

Your Committee finds that pursuant to Act 81, Session Laws of Hawaii 1999, the Legislature established the Hawaii College Savings Program, pursuant to section 529 of the Internal Revenue Code of 1986, as amended, to encourage and assist families with saving for college tuition and other expenses. Each state's 529 plan or plans offer a variety of tax benefits to participants, which may include tax-free contributions and withdrawals for authorized expenses. While the Hawaii College Savings Program provides for tax-free withdrawals from college accounts, unlike a majority of the states across the nation, it does not provide either an income tax deduction or tax credit for contributions made to these accounts. This measure establishes an income tax deduction for contributions to college accounts under the Hawaii

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College Savings Program and any other qualifying 529 plan. Your Committee believes that the tax incentive will not only encourage increased participation in the Hawaii program, but also allow individuals to make the most appropriate financial decisions for themselves by benefiting from the tax deduction so long as they participate in any qualifying 529 plan.

Upon review of testimony and information provided, your Committee is mindful that, although one objective is to encourage and increase access to postsecondary education for Hawaii residents, another concern is to grow and support the Hawaii College Savings Program. Your Committee believes that individuals seeking financial advice on college savings strategies should be afforded notice of the Hawaii College Savings Program and its many benefits. Additionally, to ensure that the tax benefits are tailored to assist those most in need of the tax deduction, your Committee believes a cap on the aggregate amount of the tax deductions should also be imposed.

Accordingly, your Committee has amended this measure by:

- (1) Requiring financial institutions in the State to provide individuals who are interested in opening college savings accounts information on the Hawaii College Savings Program and its features and benefits;
- (2) Establishing a \$75,000 cap on the total tax deduction that may be claimed per college savings account;
- (3) Including language to ensure that the amendments made by this measure will not be repealed when Section 235-7, Hawaii Revised Statutes, is reenacted on January 1, 2013; and
- (4) Making technical, nonsubstantive changes for purposes of clarity and to conform to preferred drafting style.

As affirmed by the record of votes of the members of your Committee on Education that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2660, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2660, S.D. 1, and be referred to the Committee on Economic Development and Taxation.



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



NORMAN SAKAMOTO, Chair



