
A BILL FOR AN ACT

RELATING TO THE STATE OF HAWAII SECTION 529 COLLEGE SAVINGS PROGRAM.

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

1 SECTION 1. In 2002, the State of Hawaii established a
2 college savings program called "TuitionEDGE" pursuant to chapter
3 256, Hawaii Revised Statutes, and section 529 of the Internal
4 Revenue Code of 1986, as amended. In November 2007, the program
5 was revamped under a new program manager, and re-branded as
6 "HI529 Hawaii's College Savings Program". The program was
7 established and exists to assist and encourage families to save
8 and invest funds for future higher education expenses. The
9 investment income earned under the program is exempt from
10 federal and state taxes; provided that the funds are used for
11 qualified higher education expenses.

12 As of September 30, 2016, there were approximately 6,542
13 accounts (5,591 in-state and 951 out-of-state) in the program
14 and \$73,138,396 in program assets. The asset size of Hawaii's
15 program is relatively small, and the participation rate is low
16 compared to other states' college savings programs.



1 Most states offer some kind of in-state tax deduction or
 2 credit for contributions as an incentive for their residents to
 3 participate in the state's college savings programs. To provide
 4 an incentive to Hawaii taxpayers to participate in Hawaii's
 5 college savings program, and to increase the program's assets so
 6 that the State and program participants may be able to obtain a
 7 lower program management fee in the future, this bill provides a
 8 state income tax deduction for contributions to the program.

9 As the cost of higher education continues to rise, the tax
 10 deduction will also help Hawaii families save for college
 11 instead of having to take out educational loans. This income
 12 tax deduction will apply to program contributions made in
 13 calendar year 2018 and beyond.

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

17 "§235- Hawaii section 529 college savings program. (a)
 18 There shall be allowed as a deduction from gross income
 19 contributions made to an account in the Hawaii college savings
 20 program provided under chapter 256; provided that the annual
 21 deductions for such contributions shall be:



1 (1) Up to \$5,000 for individual taxpayers and for married
2 couples filing separate returns; provided that each
3 spouse may claim a deduction up to \$5,000; and

4 (2) Up to \$10,000 for married couples filing joint
5 returns, individuals filing as the head of households,
6 or individuals filing as surviving spouses; provided
7 that the deduction shall be available to married
8 couples filing joint returns if at least one spouse is
9 an account owner in the Hawaii college savings
10 program;

11 provided that only a Hawaii taxpayer who is an account owner in
12 the Hawaii college savings program shall be allowed to claim the
13 above applicable deduction for contributions made by the
14 taxpayer into the taxpayer's account in the Hawaii college
15 savings program.

16 (b) In order to be deductible for a particular taxable
17 year, a contribution shall be credited to the account of the
18 Hawaii taxpayer on or before the last day of that taxable year;
19 provided that if a contribution is mailed in, it shall be
20 postmarked on or before the last day of that taxable year.



1 (c) Rollovers from another state's college savings program
2 into Hawaii's college saving program shall not be considered to
3 be contributions eligible for the tax deduction under this
4 paragraph.

5 (d) If the amount of the tax deduction exceeds the Hawaii
6 taxpayer's taxable income for the taxable year the contribution
7 is made, the excess deduction may be used as a deduction against
8 the taxpayer's taxable income in subsequent tax years until the
9 excess deduction is exhausted.

10 (e) Contributions to the Hawaii college savings program
11 that have been deducted from the Hawaii taxpayer's adjusted
12 gross income for prior tax years shall be subject to recapture
13 if the taxpayer:

14 (1) Makes a subsequent nonqualified withdrawal from the
15 Hawaii college savings program; or

16 (2) Rolls the Hawaii college savings program account into
17 another state's college savings program.

18 The contribution shall be recaptured by adding the amount
19 previously deducted, not to exceed the amount of the
20 nonqualified withdrawal or rollover, to the taxpayer's adjusted



1 gross income for the tax year in which the nonqualified
2 withdrawal or rollover occurred."

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

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

- 6 (1) Section 235-5.5--Deduction for individual housing
7 account deposit;
- 8 (2) Section 235-7(f)--Deduction of property loss due to a
9 natural disaster;
- 10 (3) Section 235-16.5--Credit for cesspool upgrade,
11 conversion, or connection;
- 12 (4) Section 235-19--Deduction for maintenance of an
13 exceptional tree;
- 14 (5) Section 235-55.91--Credit for the employment of a
15 vocational rehabilitation referral;
- 16 (6) Section 235-110.2--Credit for in-kind services
17 contribution for public school repair and maintenance;
18 [and]
- 19 (7) Sections 235-110.8 and 241-4.7--Credit for ownership
20 of a qualified low-income housing building[-]; and



1 (8) Section 235- --Deduction for contributions to an
2 account in the Hawaii college savings program."

3 SECTION 4. Section 256-1, Hawaii Revised Statutes, is
4 amended by adding two new definitions to be appropriately
5 inserted and to read as follows:

6 "Contribution" means:

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

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

14 "Rollover" means a distribution or transfer from an account
15 that is transferred to or deposited within sixty calendar days
16 of the distribution into an account of the same person for the
17 benefit of the same designated beneficiary or another person who
18 is a member of the family of the designated beneficiary if the
19 transferee account was created under chapter 256 or another
20 college savings program maintained in accordance with section



1 529 of the Internal Revenue Code of 1986, as amended, or
2 successor legislation."

3 SECTION 5. Statutory material to be repealed is bracketed
4 and stricken. New statutory material is underscored.

5 SECTION 6. This Act shall take effect on May 12, 2059, and
6 shall apply to taxable years beginning after December 31, 2017.

7



Report Title:

Hawaii Section 529 College Savings Program

Description:

Establishes a state income tax deduction for eligible contributions made to Hawaii's section 529 college savings program. Effective 5/12/2059. (SD1)

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

