A BILL FOR AN ACT

RELATING TO THE COLLEGE SAVINGS PROGRAM.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAI'I:

SECTION 1. The legislature recognizes that, in 2002, the State established a college savings program called "TuitionEDGE", pursuant to chapter 256, Hawaii Revised Statutes, and section 529 of the Internal Revenue Code of 1986, as amended. In November 2007, the program was revised and renamed as "HI529 Hawaii's College Savings Program". The program was established to assist and encourage families to save and invest funds for future higher education expenses. The investment income earned under the program is exempt from federal and state taxes; provided that the funds are used for qualified higher education expenses.

The legislature finds that, based on data from The Pew Charitable Trusts, while the amount of assets in Hawaii's college savings program increased from 2010 to 2017, the rate of increase lags far behind the rate of increase of assets in most other states' corresponding programs. The legislature also finds that most other states offer a state tax deduction or
credit for contributions to their state college savings programs

as an incentive for their residents to participate. The

legislature therefore finds that as the cost of higher education

continues to rise, it is appropriate for the State to provide a

similar incentive to Hawaii taxpayers to participate in Hawaii's

college savings program, thus helping Hawaii families save for

college instead of taking out educational loans. Further, such

an incentive will increase the Hawaii program's assets so that

the State and program participants may obtain a lower program

management fee in the future.

The purpose of this Act is to provide a state income tax
deduction for program contributions to the Hawaii college
savings program, which will apply to contributions made in
taxable years beginning after December 31, 2019.

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

"§235- ___ Hawaii college savings program. (a) There
shall be allowed as a deduction from gross income contributions
made to an account in the Hawaii college savings program"
1 established under chapter 256; provided that the annual
deductions for the contributions shall be:

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

3 and

4 (2) Up to $10,000 for married couples filing joint
returns, heads of household, or surviving spouses;
provided that the deduction shall be available to
married couples filing joint returns if at least one
spouse is an account owner in the Hawaii college
savings program;

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

6 (b) In order to be deductible for a particular taxable
year, a contribution shall be credited to the taxpayer's account
in the Hawaii college savings program on or before the last day
of that taxable year; provided that if a contribution is mailed
in, it shall be postmarked on or before the last day of that taxable year.

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

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

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

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

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

The contribution shall be recaptured by adding the amount previously deducted, not to exceed the amount of the
nonqualified withdrawal or rollover, to the taxpayer’s adjusted gross income for the tax year in which the nonqualified withdrawal or rollover occurred."

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

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

(1) Section 235-5.5--Deduction for individual housing account deposit;

(2) Section 235-7(f)--Deduction of property loss due to a natural disaster;

(3) Section 235-16.5--Credit for cesspool upgrade, conversion, or connection;

(4) Section 235-19--Deduction for maintenance of an exceptional tree;

(5) Section 235-55.91--Credit for the employment of a vocational rehabilitation referral;

(6) Section 235-110.2--Credit for in-kind services contribution for public school repair and maintenance;

[and]

(7) Sections 235-110.8 and 241-4.7--Credit for ownership of a qualified low-income housing building[–]; and
(8) Section 235- --Deduction for contributions to an
account in the Hawaii college savings program."

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

""Contribution" means:

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

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

"Rollover" means 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 if the
transferee account was created under chapter 256 or another
college savings program maintained in accordance with section
529 of the Internal Revenue Code of 1986, as amended, or successor legislation."

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

SECTION 6. This Act, upon its approval, shall apply to taxable years beginning after December 31, 2018.

INTRODUCED BY:  

[Signatures]  

JAN 24 2019
Report Title:
Hawaii College Savings Program; Income Tax Deduction

Description:
Establishes a state income tax deduction for eligible contributions made to the Hawaii college savings program.

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