

## COMMENT LETTER

January 31, 2006

# Institute Submits Letters Supporting Federal Conformity Legislation in Alabama and Pennsylvania (pdf)

January 11, 2006 VIA FACSIMILE Representative Richard Lindsey Chairman Education, Finance and Appropriations Committee Room 514 11 S. Union Street Montgomery, AL 36130 Re: HB 62 Should Be Amended to Extend Tax-Free Treatment to All 529 Plans Dear Representative Lindsey: The Investment Company Institute (the "Institute")<sup>1</sup> supports your efforts to assist Alabama families saving for college. The Institute is the national trade association of the mutual fund industry. Mutual funds are an important savings vehicle for 529 plans. The Institute is proud of its role in assisting families saving for college. We strongly support efforts that encourage college savings, like HB 62. While we believe that HB 62 is a helpful starting place, we strongly urge you to amend the bill to extend tax free treatment of earnings and amounts used to pay for qualified higher education expenses to all 529 plans. Such a change would fully conform Alabama rules to federal law and provide a much needed incentive for education savings programs. Spiraling education cost is a significant issue for Alabama families. The federal exclusion for qualifying withdrawals from 529 plans has had a major impact on the growth of these savings vehicles and has encouraged American families to save for their children's college education. Recognizing the impact of federal law on the success of 529 plans, most states already have conformed their state tax treatment of withdrawals to federal law. Alabama currently is one of only three states in the nation that does not conform its treatment of 529 plans to federal law. Federal conformity with respect to qualified withdrawals will make it easier for Alabama families to save for college. In addition, federal conformity will simplify tax compliance for Alabama residents. 1 ICI members include 8,537 open-end investment companies (mutual funds), 669 closed-end investment companies, 157 exchange-traded funds, and 5 sponsors of unit investment trusts. Mutual fund members of the ICI have total assets of approximately \$8.672 trillion (representing 98 percent of all assets of US mutual funds); these funds serve approximately 89.5 million shareholders in more than 52.6 million households. We urge you to amend HB 62 to provide tax free treatment for all 529 plans. Please contact me at 202-326-5835 or lrobinson@ici.org if you need additional information. Sincerely, /s/ Lisa Robinson Lisa Robinson January 31, 2006 Hon. Dennis E. Leh, Chairman Hon. David K. Levdansky, Chairman House Finance Committee 301 Irvis Office Building 209 Ryan Office Building Harrisburg, PA 17120-2020 Harrisburg, PA 17120-2020 Re: HB 529 Dear Chairmen Leh and Levdansky: The Investment Company Institute<sup>1</sup> urges your support for HB 529 and Pennsylvania families saving for college. HB 529 will help Pennsylvania families attain their saving goals by encouraging them to invest in qualified state tuition programs established under Section 529 of the Internal Revenue Code ("529 Plans").

Specifically, the bill would amend the Tax Reform Code to provide Pennsylvania residents with an exclusion from gross income for amounts withdrawn from any state 529 Plan for qualified higher education expenses. Spiraling education cost is a significant issue for Pennsylvania families. The Institute supports efforts like HB 529 that encourage college savings. Among other things, HB 529 would conform Pennsylvania tax treatment of qualifying withdrawals from 529 Plans to federal law. The federal exclusion for qualifying withdrawals from 529 plans has had a major impact on the growth of these savings vehicles and has encouraged American families to save for their children's college education. In the past three years, assets in 529 Plans have almost tripled, increasing from \$26.8 billion at year-end 2002 to \$77.3 billion by the third quarter of 2005. During the same period, the number of 529 Plan accounts rose from 4.4 million to 7.9 million; the average account balance rose to over \$10,000.<sup>2</sup> Although these statistics are encouraging, many Americans who want to save for college still do not save enough.<sup>3</sup> Recognizing the impact of federal law on the success of 529 plans, most states have conformed their state tax treatment of qualified withdrawals to federal law. Pennsylvania currently is one of only three states in the nation that does not conform its treatment of 529 plan withdrawals to federal law. Federal conformity will make it easier for Pennsylvania families to save for college. In addition, federal conformity will simplify tax compliance for Pennsylvania ICI members include 8,537 open-end investment companies (mutual funds), 669 closed-end investment companies, 157 exchange-traded funds, and 5 sponsors of unit investment trusts. Mutual fund members of the ICI have total assets of approximately \$8.672 trillion (representing 98 percent of all assets of US mutual funds); these funds serve approximately 89.5 million shareholders in more than 52.6 million households. <sup>2</sup> Sources: Investment Company Institute and College Savings Plan Network. <sup>3</sup> See Profiles of American Households Saving For College, Investment Company Institute Research Series, Fall 2003. residents. We strongly urge you to support enactment of HB 529. Please contact me at 202-326- 5835 or [lrobinson@ici.org](mailto:lrobinson@ici.org) if you need additional information. Sincerely, /s/ Lisa Robinson Lisa Robinson