



January 12, 2006

Representative Richard J. Lindsey
Chairman
Education, Finance and Appropriations Committee
11 S. Union Street, Room 514
Montgomery, AL 36130

Re: HB 62 Should be Amended to Extend Tax-Free Treatment to Any 529 Plan

Dear Representative Lindsey:

On behalf of the Securities Industry Association¹ ("SIA"), I am writing to express SIA's support for HB 62, which would make earnings on the investments of contributions to the Alabama Higher Education 529 Fund free from state income tax to the extent they remain with the Alabama program or are withdrawn to pay for the designated beneficiary's qualified higher education expenses. However, while we find HB 62 a worthy proposal, we think it could be vastly improved by allowing all residents of Alabama who participate in 529 plans to receive its benefits. Therefore, we urge you to amend HB 62 to extend this tax-free treatment to money in *any* 529 college savings plan that remains in the plan or is withdrawn to pay for qualified higher education expenses of the account's beneficiary.

As you know, 529 plans are considered an attractive way for families to save for college. A major benefit of these plans to Alabama residents is the federal tax treatment. Section 529 of the Internal Revenue Code allows residents to make after-tax contributions to 529 plans, have earnings grow federal income tax free, and take tax-favored withdrawals for qualified higher education expenses. By amending HB 62 as outlined above, Alabama would achieve full conformity with the federal income tax laws governing 529 plans. Currently, Alabama is one of only three states that do not achieve full conformity with respect to withdrawals by residents from out-of-state 529 plans. Furthermore, Alabama is the only state that taxes earnings on qualified withdrawals from both the in-state and out-of-state plans.

¹ The Securities Industry Association brings together the shared interests of approximately 600 securities firms to accomplish common goals. SIA's primary mission is to build and maintain public trust and confidence in the securities markets. SIA members (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs nearly 800,000 individuals, and its personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2004, the industry generated \$236.7 billion in domestic revenue and an estimated \$340 billion in global revenues. (More information about SIA is available at: www.sia.com.)

We applaud your interest in encouraging savings for college. The attractive federal tax characteristics of 529 plans combined with the state income tax free treatment of qualified withdrawals from any 529 plan will result in broader use of 529 plans and an overall increase in education savings. This increased savings will lead to more Alabama residents being able to afford college, which will in turn produce a more highly educated and skilled constituency. The College Board in its 2004 report "Education Pays: The Benefits of Higher Education for Individuals and Society" and its 2005 supplement documented many of the individual and societal benefits generated by higher education.

According to the College Board, college graduates will earn an average of about \$1 million more than their counterparts with a high school diploma over the course of their careers. With a better-educated and more affluent constituency, Alabama will realize higher income tax revenues and will attract more companies requiring skilled employees. The College Board also reported that in addition to contributing more to tax revenues, college graduates experience lower levels of unemployment and are less likely to depend on social safety-net programs.

Please contact SIA's local counsel Conwell Hooper at 334-262-9920, or me at (212) 618-0533, if you need additional information.

Regards,

Nancy Donohoe Lancia
V.P. and Director
State Government Affairs