



Securities Industry Association

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April 24, 2003

The Honorable John E. Baldacci
Office of the Governor
One State House Station
Augusta, ME 04333-0001

Re: Repeal Temporary Legislation Taxing Certain Section 529 Plan Withdrawals

Dear Governor Baldacci:

The Securities Industry Association¹ strongly backs initiatives that encourage Americans to save for their children's education. As you well know, attaining a college degree is an expensive but extremely important endeavor. It is estimated that over a work lifetime, the gap in earning potential between those with a high school diploma and those with a college degree (or higher) exceeds \$1 million². Kiplinger, Saving for College.com, and a host of other entities have identified 529 plans as the best place to invest college savings.

One of the major reasons 529 plans are so attractive is that the federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) makes earnings on 529 plans free from federal taxation. The vast majority of states have conformed their state tax laws to ensure that 529 earnings are likewise not taxed at the state level.

Maine initially conformed its tax code to the federal law. We, however, were disappointed to see that this position has been reversed through Maine's most recent budget package which included a provision which taxes earnings on qualified distributions from nearly all 529 plans for tax years 2003, 2004 and 2005. Only one of the many 529 plans in which Maine residents invest, the Maine sponsored-NextGen College Investing Plan, would not be subject to this tax.

SIA firmly believes that the earnings from all qualified 529 plans should not be taxed. While we appreciate that Maine is facing tough financial constraints, we do not believe that this provision is the answer to your fiscal problems.

¹ The Securities Industry Association, established in 1972 through the merger of the Association of Stock Exchange Firms and the Investment Banker's Association, brings together the shared interests of more than 600 securities firms to accomplish common goals. SIA member-firms (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 more than 700,000 individuals. Industry personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2002, the industry generated \$214 billion in U.S. revenue and \$285 billion in global revenues. (More information about SIA is available on its home page: www.sia.com.)

² The College Board, 2001.

First of all, as a practical matter, this provision will not be a big revenue raiser. Given both the relatively short period of time in which 529 plans have been in existence and the market conditions over the last several years, there will not be many instances in which earnings will have been generated. Indeed, the provision is expected to generate only about \$14,000 per year. While the benefits of the provision are minimal, the costs are significant. While the federal government has made encouraging the public to save for college a strong policy objective, this provision discourages such savings. Maine's reversion to a position of non-conformity will likely cause unnecessary confusion for investors along with a potential lack of confidence about and less investing in these programs.

We further believe that it is inappropriate to favor, through inconsistent tax treatment, one 529 plan over alternative plans. Maine residents should be able to select the 529 savings program whose feature set best meets their needs. A resident should not be forced to base a 529 plan selection primarily on the fact that one plan has greater state tax breaks than another.

Your record in Congress demonstrates your commitment to education and to initiatives designed to ensure greater access to higher education. We would encourage you to find a way, through the supplemental budget process, to give Maine residents back the college savings incentive they deserve by again making qualified distributions from **all** Section 529 programs state tax free.

Thank you.

Sincerely,

Kim Chamberlain
Vice President & Counsel
State Government Affairs

Cc: Dale McCormick, State Treasurer of Maine
Jane Lincoln, Chief of Staff, Office of the Governor
Rebecca Wyke, Commissioner, Dept. of Administrative and Financial Services