



Securities Industry Association

120 Broadway - 35 Fl. • New York, NY 10271-0080 • (212) 608-1500, Fax (212) 968-0703

1425 K Street, NW • Washington, DC 20005-3500 • (202) 216-2000, Fax (202) 216-2119

www.sia.com, info@sia.com

May 13, 2004

The Honorable Stephen D. Alves
Senate Finance Chairman
Room 211, State House
Providence, RI 02903

Dear Chairman Alves:

The Securities Industry Association (SIA)¹ strongly supports S. 2893 and S. 2913, legislation that extends favorable tax treatment to all qualified 529 plans. SIA wanted you to be aware of its position should the bills be brought before your committee in the near future.

As you may know, Kiplinger, Savingforcollege.com, and a host of other entities view 529 plans to be one of the best places to invest college savings. A major reason why these plans are so attractive is that the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 makes earnings on 529 plans free from federal tax so long as they are used for qualified education expenses. In addition, most states – including Rhode Island – conformed their tax laws to ensure that 529 earnings were likewise not taxed at the state level.

Rhode Island currently provides another tax incentive to residents who participate in the state sponsored tuition savings plan. Rhode Islanders who contribute to Rhode Island's CollegeBound*fund* receive an up front state tax deduction for contributions up to \$1,000 per married couple filing jointly. Recognizing that encouraging college savings is good public policy, S. 2893 and S. 2913 extend this tax benefit to Rhode Island residents who contribute to any qualified 529 plan.

There are several reasons why it is important to extend the current up front tax incentive to all qualified 529 plans. First, limiting a state tax deduction to specific state sponsored plans effectively limits consumer choice. The problem with giving preferential state tax treatment to

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 nearly 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 800,000 individuals. Industry personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2003, the industry is projected to generate \$142 billion in domestic revenue and \$283 billion in global revenues. (More information about SIA is available on its home page: www.sia.com)

one plan is that the up-front deduction often plays too large a role in plan selection. By extending the tax benefit to any Rhode Island resident who contributes to any qualified 529 program, S. 2893 and S. 2913 level the playing field among plans. Rhode Island residents are then able to make investment choices based on a wide range of criteria, such as: investment objective and risk level, fund options, manager reputation, return rates and / or expenses and sales loads.

Second, these two tax parity bills encourage competition among plans. Plans will compete for business based on factors such as plan performance, customer service, and fees. Increased competition among the plans should result in even better options for consumers. It also encourages the state sponsored plan to work hard to remain an attractive option for people living in Rhode Island and across the country.

Third, many Rhode Island residents rely upon investment professionals to help meet their college savings needs. Because these investment professionals are familiar with the family's entire investment portfolio, they are in a unique position to help Rhode Islanders select the 529 plan that fits best with their needs and goals. Extending equal tax treatment to all 529 plans allows these residents to continue working with trusted advisers, and allows those advisers to explore a variety of options before making investment recommendations.

Finally, S. 2893 and S. 2913 are consistent with the original objectives of 529 plans. Qualified tuition plans are designed to be a flexible and portable investment option as: (1) they can be used equally at any accredited public or private undergraduate, graduate or professional program in the country; (2) they are open to any investor, regardless of state residency; and (3) they can be opened by any investor (whether a parent, grandparent or non-relative) for the benefit of any future student. Proprietary state tax advantages are inconsistent with plan flexibility and portability.

SIA urges you to view this legislation favorably.

Please feel free to contact me at 212-720-0611 should you have any questions.

Sincerely,

Kim Chamberlain
Vice President and Counsel
State Government Affairs