



Securities Industry and Financial Markets Association

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May 3, 2007

The Honorable Sharon Runner
California State Assembly
State Capitol, Room 5158
Sacramento, CA 95814

Re: AB 819 SUPPORT

Dear Assemblyman Runner:

The Securities Industry and Financial Markets Association is writing to express its strong support for AB 819, as amended.¹ This legislation would allow California residents who contribute to any qualified 529 plan to deduct the amount of that contribution - up to a maximum of \$3,000 per year per individual or \$6,000 per married couple filing jointly - from their gross income for state tax purposes.

Saving for your children's college education can be a daunting task. According to the College Board, the average cost for **one year** of a public college in 2006-2007 was \$12,796, while the average cost for **one year** of a private college or university was \$30,367. While many students receive some financial assistance in the form of grants and tax breaks, even with this assistance, parents and students are facing total college costs that range between roughly \$39,000 and \$85,000 per child. Moreover, college costs are only going up. Over the past decade, total costs for full-time students at private four year colleges has increased an average of 5.6% per year, while total costs at public universities has increased 6.3%.

Paying for college requires extensive planning and saving. Many entities, including Kiplinger and Savingforcollege.com, currently consider 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

¹ The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington, D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

qualified education expenses. In addition, most states - including California - have followed the federal government's lead and don't tax 529 earnings.

AB 819 is good public policy because it gives California residents an additional incentive to save for college. Residents who contribute to any qualified 529 plan would be permitted to deduct contributions of up to \$6,000 per married couple filing jointly per year from their state taxable income. We applaud you for sponsoring legislation that further encourages California residents to save for the education needs of their children.

This additional tax incentive is good not just for California residents, but also for the state itself. Encouraging people to go to college makes sound economic sense for the state. According to the U.S. Census Bureau, people with bachelor's degrees earn over 70% more on average than those with only a high school diploma, and the earnings gap between a high school and a college graduate is more than \$1,000,000 over a lifetime. In addition, a College Board report entitled "Education Pays" concluded that college graduates not only make more but they also have lower levels of unemployment, are less likely to depend on social programs, and have lower smoking and incarceration rates. In short, there are many benefits to having state residents graduate from college.

For the reasons stated above, SIFMA urges the Assembly Committee on Revenue and Taxation to view AB 819 favorably. Please feel free to contact me at 212-720-0611 or my representative, Joanne Bettencourt, if you have any questions.

Sincerely,



Kim Chamberlain
Vice President and Counsel
State Government Affairs

cc: Assemblyman Calderon, Chair Assembly Revenue and Tax Committee
Assembly Revenue and Tax Committee Members