

June 29, 2006

The Honorable Charles W. Albertson  
525 Legislative Office Building  
Raleigh, NC 27603-5925

**Re: Amend HB 770 to Study the Issue of Providing Tax Equity**

Dear Senator Albertson:

The College Savings Foundation (“CSF”), a not-for-profit organization with the mission of helping American families achieve their education savings goals by working with public policy makers, media representatives and financial services industry executives in support of education savings programs, opposes Section 1 of HB 770 because it only would provide to North Carolina residents a state tax deduction on contributions to the North Carolina College Savings Program. CSF strongly supports Section 2 of the bill, which would require the Revenue Laws Study Committee to study the issue of providing a state tax deduction for contributions to *any* qualified 529 plan.

By providing preferential tax treatment to the North Carolina plan as proposed in Section 1, you are harming families saving for post-secondary education in a number of ways. First, when state sponsorship is combined with preferential tax treatment, an inflexible and noncompetitive environment is created that will adversely impact North Carolina residents. Residents are essentially held “captive” and the 529 plan provider has insufficient incentive to innovate and improve quality and service. Second, as a policymaker, you are in effect making investment decisions for your constituents. Yet the in-state plan’s particular provider and investment selections may not be the most appropriate plan for all residents. Third, preferential tax treatment adds a level of complexity that may drive potential investors into less optimal education savings vehicles or cause residents to forego college savings altogether. In addition, it deters financial advisers who cannot sell the in-state plan from selling a suitable plan sponsored by another state, so that some families that might be well served by a 529 plan will not participate at all.

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CSF strongly supports legislation that would provide a state income tax deduction for contributions to *any* 529 plan. Only through full tax equity can a true nationwide network of 529 plans exist that provides families with the flexibility and freedom to invest in the savings plan best suited to their needs. The attractive federal tax characteristics of 529 plans combined with the state tax deduction for residents who contribute to *any* qualified 529 plan will result in broader use of 529 plans and an overall increase in education savings. This increased savings will lead to more North Carolinians being able to afford college, which will in turn produce a more highly educated and skilled constituency.

CSF strongly urges you to amend HB 770 to provide for a study of the issue of providing a state tax deduction on contributions to *any* qualified 529 plan. CSF is more than willing to help in any way the Revenue Laws Study Committee study this important issue.

Please feel free to contact me through our national headquarter office in Washington, DC at (202) 223-2631, if you need additional information.

Sincerely,

Kevin L. McMullen  
Chair, Government Affairs Committee