

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

SANDRA L. YAHIRO  
DEPUTY DIRECTOR

LATE TESTIMONY

STATE OF HAWAII  
DEPARTMENT OF TAXATION  
P.O. BOX 259  
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510  
FAX NO: (808) 587-1560

## HOUSE COMMITTEE ON HIGHER EDUCATION

### TESTIMONY REGARDING HB 3025 RELATING TO INCOME TAX CHECK OFF

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**

**DATE: JANUARY 31, 2008**

**TIME: 3:00PM**

**ROOM: 309**

---

This bill creates a "check-the-box" voluntary taxpayer donation to fund the University of Hawaii campuses in various amounts, which is to be provided on the Department's tax forms.

The Department of Taxation ("Department") **opposes** this bill and provides the following comments.

#### **I. THE DEPARTMENT DEFERS ON THE SUBSTANTIVE MERITS OF THIS BILL.**

This legislation seeks to create an alternative funding system whereby taxpayers may make donations on their tax return to fund the various University of Hawaii System campuses, including the University of Hawaii—Hilo athletics program. The Department strongly prefers that sufficient funding for the University of Hawaii programs be made through an appropriation through the ordinary budgeting and priority processes. The "check-the-box" donations occur seasonally during the income tax filing of individuals, which occurs once a year. The Department questions the effectiveness of such a program given the immediate needs of the university system.

#### **II. THE VOLUNTARY CONTRIBUTION ON STATE TAX FORMS WILL IMPACT THE DEPARTMENT'S SYSTEMS AND TECHNICAL DIVISIONS.**

This legislation provides for the creation of a "check-the-box" procedure for taxpayers to indicate voluntary contributions to UH on State tax forms.

Legislation that includes voluntary contributions similar to the one contemplated by this bill typically impact two specific areas of the Department—the computer system and the forms.

**COMPUTER SYSTEM**—Changes to the Department's computer system will need to be

LATE TESTIMONY

Department of Taxation Testimony  
HB 3025  
January 31, 2008  
Page 2 of 2

made to implement this legislation. The automatic donation amount from the check of the box will need to be correlated to a known amount in the computer. Making automation changes to the Department's computer system may have an unknown revenue impact on the Department's budget.

**FORMS**—The Department will need to amend the forms to accommodate this new provision. Currently there are four "check-the-box" contribution programs on the individual income tax return, including campaign contributions. The Department offers input that the interest in contributing to state programs become diluted at some point when there are multiple programs offered. The State could likely garner more contributions if fewer programs are offered.

**COSTS TO ADMINISTER**— The costs of implementing the automatic donation amount could have a substantial revenue impact on the Department. The cost to administer a program such as this may far outweigh any revenues received.

**REVENUES HISTORICALLY SMALL**—The Department understands that the current check-off features on the tax return have historically been very small, which would likely provide little assistance to a budgetary undertaking such as that intended by this measure.

# TAXBILLSERVICE

536-4587  
26 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel.

SUBJECT: INCOME, Tax checkoff for University of Hawaii

BILL NUMBER: HB 3025

INTRODUCED BY: Takai, Bertram, Chang, Nishimoto and 1 Democrat

BRIEF SUMMARY: Amend HRS section 235-102.5 to allow individuals with a tax refund of \$\_\_\_\_\_ or more to designate \$\_\_\_\_\_ of that refund to be paid over to the University of Hawaii. Of the amount collected (1) one-half shall be divided equally among the 10 university of Hawaii system campuses; (2) one-fourth shall go to the University of Hawaii, Manoa Campus, and (3) one-fourth shall go to the University of Hawaii, Hilo athletics program. Joint taxpayers with a tax refund of \$\_\_\_\_\_ or more may also designate \$\_\_\_\_\_ of that refund to be paid to the University of Hawaii.

Requires the director of taxation to revise the individual state income tax form to allow the designation of contributions. If no designation is made on the original tax return when filed, a designation may be made by individual on an amended return filed within 20 months and 10 days after the due date of the original return for such taxable year. Once a designation is made, it cannot be revoked.

EFFECTIVE DATE: Tax years beginning after December 31, 2007

STAFF COMMENTS: The proposed measure allows individuals to designate an unspecified amount of their income tax refund to provide funds for the University of Hawaii. It should be remembered that utilizing the system as a collection agent for such specific purposes sets poor tax policy.

In a survey by the Federation of Tax Administrators, it was found that the states that utilize checkoff programs have been experiencing a decline in the amount of moneys designated through the checkoff mechanism. The survey also found that due to the administrative costs associated with the checkoff programs, states which currently have the checkoffs are looking to adopt expiration clauses and other means to remove the less productive checkoffs. Consideration should be given to setting a temporary life for these proposals, if adopted after which an evaluation should be made as to their effectiveness and efficiency.

Further, since the department of taxation would have to track each and every checkoff designation, this added cost will reduce what is available to the general treasury. All taxpayers would be subsidizing this particular program. Utilizing the tax system as a collection agent for such specific purposes sets poor tax policy. Approval of such a mechanism would set a poor precedent, for if a checkoff is approved for the designated purpose, it would open the door for other "worthy" causes. In addition, the enactment of this measure and other checkoffs would lead to a complicated income tax form filled with various checkoffs.

This proposal follows on the heels of the election campaign fund enacted in 1979, then within the last few ye

the school-level minor repairs and maintenance checkoff, the libraries fund, and the domestic violence and spousal and child abuse fund checkoffs. One has to ask "where will it end?"

HB 3025 - Continued

Advocates of these programs may see this proposal as a way of getting funding for those programs, but in reality this is a way for lawmakers to absolve themselves of the issue since this measure provides funding perhaps not enough to address the problem. Again, because the checkoff is subject to the whim of the individual taxpayer, there is no assurance that moneys generated from the checkoff will be sufficient to fund the desired programs or services. But lawmakers can ignore the problem because there is a funding stream.

This proposal has the effect of setting this particular program or cause above all others in the competition for public moneys. If lawmakers believe that earmarking funds through a checkoff system is appropriate, then they might consider placing all programs on the state income tax form for designation and consider dissolving the legislative body as there will be no reason for the legislature to exist because decisions will have been made by the income taxpayer. This proposal is indeed a sad commentary that taxpayers do not trust their elected officials to act in their best interests as they construct the state budget each year.

Digested 1/31/08

LATE TESTIMONY

Testimony Presented Before the  
House Committees on Higher Education  
January 31, 2008

by

Linda K. Johnsrud

Vice President for Academic Planning and Policy, University of Hawai'i System

HB3025 - Relating to Income Tax Check-Off

Chair Chang, Vice Chair Bertram, and members of the House Committee on Higher Education:

I am Linda K. Johnsrud, Vice President for Academic Planning and Policy, University of Hawai'i System, and I am testifying on behalf of the University on House Bill 3025 that proposes a check-off box in personal income tax returns for amounts that would go to the UH, with allocations going to the ten campuses.

The University of Hawai'i System would like to thank the legislature for its efforts to increase the revenues of your public university and supporting us as we do our best to respond to the educational and workforce needs of the state of Hawai'i. We really do appreciate it.

We cannot, however, support HB3025. Viewed from a statewide perspective, there are many pressing social needs facing our community. An income tax check-off should not be created solely for the University.

Thank you for the opportunity to testify.