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To: The Honorable Marcus R. Oshiro, Chair
and Members of the House Committee on Finance

Date: February 26, 2008

Time: 2:15 p.m.

Place: Conference Room 308, State Capitol

From: Darwin L.D. Ching, Director
Department of Labor and Industrial Relations

Testimony in Strong Support
of

H.B. 3168 - Relating to Unemployment Contribution Rates

I. OVERVIEW OF PROPOSED LEGISLATION

H.B. 3168 is an Administration bill that proposes to amend section 383-66(b), Hawaii Revised Statutes ("HRS") to make all total and partial transfers under subsections (a) and (b) effective beginning with the calendar year immediately following the transfer. This proposed revision will make all total and partial transfers, whether mandatory or voluntary, to be treated the same and would still be in accordance with federal conformity requirements in regards to the state's experience rating system.

Further, a technical correction is needed to section 383-66(b)(6)(C), HRS, to change the federal law citation from section 6601(a)(1) to section 7701(a)(1) of the Internal Revenue Code, as amended.

II. CURRENT LAW

Currently, recalculation of rates under section 383-66(a), HRS, is effective beginning the following year resulting in only one calculation in a year while section 383-66(b), HRS, is effective beginning the next quarter which could result in multiple recalculations

within a year.

III. HOUSE BILL

The Department supports H.B. 3168 for the following reasons:

1. This measure is a housekeeping measure intended to conform Hawaii's unemployment insurance law to federal law in order to provide uniform application to all experience rating transfers for employers.
2. Doing one tax calculation is more efficient and will consolidate administrative actions, costs and controls for both the State and employers.
3. The current UI tax system can accommodate tax rate changes on a yearly basis without system modifications and reprogramming. However, it is unable to accommodate mid-year tax rate changes, requiring an overhaul to the UI tax system at estimated cost of approximately \$23 million.
4. This proposal will also provide a more uniform application of the experience rate transfers thus making it less complicated for employers to understand. In addition, employers will not have to reprogram their own accounting systems in order to deal with multiple, mid-year rate changes.