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**SENATE COMMITTEE ON JUDICIARY & LABOR AND
ECONOMIC DEVELOPMENT & TAXATION
TESTIMONY REGARDING SB 2605
RELATING TO TAXATION**

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

DATE: FEBRUARY 14, 2008

TIME: 10:00AM

ROOM: 106

This legislation increases the election fund contribution amount on state income tax returns from \$2 to \$5 for campaign spending purposes.

The Department of Taxation (Department) takes **no position** on this legislation and cites its revenue estimate.

Under current law, a taxpayer may elect on the final page of their Hawaii Net Income Tax return, to designate \$2 of the tax liability as a contribution to the Hawaii Election Campaign Fund. As required by law, the tax forms clearly denote that this contribution does not increase or decrease a person's tax liability. This mechanism serves simply as a person's participation in whether state funds shall be earmarked for campaign purposes.

The revenue impact for FY2009 and after is estimated at \$465,780 annually. Based on revenue information provided by the Department of Taxation, in FY2006, the election campaign fund generated \$186,312. It is assumed the same number of people will contribute to the fund in FY2009.

	Amount Per Check Box	No. of Returns	Amount Collected			
			FY 2007	FY 2007	FY 2006	FY 2005
Hawaii Election Campaign Fund	\$2	91,651	\$220,406	\$186,312	\$220,490	

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STATE OF HAWAII
CAMPAIGN SPENDING COMMISSION
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February 14, 2008

TO: The Honorable Brian Taniguchi
Members of the Senate Committee on Judiciary and Labor

The Honorable Carol Fukunaga
Members of the Senate Committee on Economic Development and
Taxation

FROM: Barbara U. Wong, Executive Director *B. Wong*
Campaign Spending Commission

SUBJECT: Testimony on S.B. No. 2605, Relating to Taxation

Thursday, February 14, 2008
10:00 a.m. in Conference Room 016

Chair Taniguchi, Chair Fukunaga, and Members of the Senate Committee on Judiciary and Labor, and Senate Committee on Economic Development and Taxation, thank you for the opportunity to testify on this bill.

This bill proposes to amend Hawaii Revised Statutes ("HRS") § 235-102.5(a) to increase the check-off on state income tax returns to the Hawaii Election Campaign Fund ("Fund") as follows:

"(a) Any individual whose state income tax liability for any taxable year is [~~\$2~~] \$5 or more may designate [~~\$2~~] \$5 of the liability to be paid over to the Hawaii election campaign fund, any other law to the contrary notwithstanding, when submitting a state income tax return to the department. In the case of a joint return of a husband and wife having a state income tax liability of [~~\$4~~] \$10 or more, each spouse may designate that [~~\$2~~] \$5 be paid to the fund..."

This bill is applicable to taxable years beginning after December 31, 2007.¹

The Campaign Spending Commission ("Commission") supports this bill, which was not submitted by the Commission. The sources of funding (including the check-off) have

¹ The companion bill, H.B. No. 2652, was referred to the House Judiciary Committee and House Finance Committee but a hearing on the bill was not scheduled.

been decreasing. 2008 is an election year and the Commission anticipates receiving applications from candidates for partial public financing. Moreover, there are various Legislative proposals to decrease sources of funding and allow increased funding requests.

Current law

The income tax check-off for the Fund in HRS § 235-102.5 was enacted in Act 224, Session Laws of Hawaii 1979 ("Act 224"). The Legislature subsequently added three other check-offs for the school-level minor repairs and maintenance fund,² the libraries special fund,³ and the domestic violence and child-abuse fund.⁴ There is at least one proposal in the 2008 Legislature for another check-off.⁵

The Fund currently provides partial public financing to candidates and the Commission's operating expenses.⁶

The Fund had a balance of \$5,469,345 as of December 31, 2007.

The current sources of funding are:

- The voluntary state income tax return check-off;
- Fines and penalties;
- Interest; and
- Excess, surplus, and anonymous contributions.

The income tax check-off is the primary source of funding. The percentage of taxpayers that use the check-off has steadily declined since the inception of the program in 1979 and currently is less than 15%. The check-off provides funding of approximately \$200,000 per year and dipped below \$200,000 in 2007 for the first time since 1979.

Fines and penalties provided a greater amount of funding in the past, but this source has declined because compliance with laws should have increased.

Interest income in 2007 was about \$232,000, based upon the current 3% rate and the Fund's current balance.

Legislative proposal to decrease source of funding

² Act 311, SLH 2001.

³ Act 193, SLH 2003.

⁴ Act 228, SLH 2004.

⁵ H.B. No. 3025 proposes to allow individuals to designate an unspecified amount of their income tax refund to provide funds for the University of Hawaii.

⁶ HRS section 11-217.

The Honorable Brian Taniguchi
The Honorable Carol Fukunaga
Testimony regarding S.B. No. 2605
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S.B. No. 2579 proposes that fines paid for campaign law violations be deposited into the general fund, rather than the Fund.

Legislative proposals to increase funding requests

- Two bills which carried over from the 2007 Legislative session (S.B. No. 1068, S.D. 1, H.D. 1⁷ and S.B. No.1549⁸) propose to raise the expenditure limits for the first time in twelve years. This will increase the amount of partial public financing available to candidates without creating a second system of public financing.
- H.B. No. 661, H.D. 1, which carried over from the 2007 Legislative session, proposes to add a new subpart to the law relating to “comprehensive public funding” for candidates for the county council
- SB No. 2607 provides full public funding for delegate candidates for the constitutional convention.
- S.B. No. 2617 allows delegate candidates for the constitutional convention to qualify for partial public financing.

⁷ S.B. 1068, S.D.1, H.D. 1 passed both the Senate and House and is presently in Conference.

⁸ S.B. No. 1549 was referred to the Senate Committee on Judiciary and Labor but a hearing on the bill was not scheduled.

testimony

From: Barbara Polk [ednbarb8@earthlink.net]
Sent: Wednesday, February 13, 2008 2:23 PM
To: testimony
Subject: SB 2605 hearing 2/14, 10 am, JDL/EDT

To: Chairs Taniguchi and Fukunaga
Senate Judiciary and Labor Committee and
Senate Committee on Economic Development and Taxation

From: Barbara Polk, Legislative Chair
Americans for Democratic Action, Hawaii Chapter

RE: Testimony in support of SB 2605 Relating to Taxation

On behalf of Americans for Democratic Action, Hawaii chapter, I ask for your support of SB 2605. Providing public funds for candidates for election helps to make our political processes more democratic by widening the field of potential candidates for office and enabling candidates to spend their time on working with constituents rather than on raising campaign money.

The possible income tax check-off for the elections fund has been \$2 for some years, an amount that provides little potential support for candidates. Allowing taxpayers to donate \$5 to this fund will provide more money to allow the state or its sub-units to try public financing of election campaigns, while not making a major dent in the State treasury.

I strongly urge your support for SB 2605