HACBED

Hawai`i Alliance for Community-Based Economic Development
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February 8, 2008

Senate Committee on Human Services and Public Housing &
Economic Development and Taxation
Tuesday February 12, 2008
CR- 224 9:00 am
SB 2838 – Support

Dear Chairs Oakland & Fukunaga:

The Hawai`i Alliance for Community Based Economic Development (HACBED) is submitting testimony supporting **SB 2838** that would allow state tax filers to split their state tax refund into more than one account.

Hawai'i needs a comprehensive public policy to help people build assets. This should include a package of programs, tax incentives, regulatory changes, and other mechanisms to help people earn more, save more, protect hard earned assets, start businesses and become homeowners.

Assets are essential for three reasons:

1. To have **financial security** against difficult times
2. To create **economic opportunities** for oneself
3. To **leave a legacy** for future generations to have a better life

For many households, an annual tax refund is the only opportunity to do something with a lump sum amount of cash. This is particularly the case for low-income households.

Allowing refunds to be automatically deposited into more than one account accomplishes two main public policy goals:

1. **Convenient opportunity to save** – Refund splitting allows the taxpayer to easily assign "money to save" and "money to spend" rather than receiving a check or electronically directing all of the refund into a single spending account.
2. **Encouraging asset-building** – This simple administrative adjustment shows government's commitment to encourage all people to accumulate the necessary financial assets they need.

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We feel SB 2838 is an important asset building measure for the following reasons:

- **The best and often only opportunity to save.** Research shows that an individual is more likely to make a decision to save when faced with an unusually large lump sum of money.[1] There is also less temptation to spend and a greater likelihood of saving when money is not in a person's hand.[2]
- **Refund splitting is a critical part in a system that encourages asset building.** Refund splitting creates a direct link between the largest pot of potential savings and financial accounts. This, along with quality tax preparation services and accessible financial products, make up a system for tax savings.
- **Research shows refund splitting encourages saving.** The D2D Fund did a pilot study in the 2004 tax season and found that those who utilized refund splitting directed an average of $538, or 47%, of their refunds to savings. 75% of those who participated had no prior savings.[3]
- **The IRS has adopted refund splitting.** Based in part on the D2D findings, beginning with the 2007 tax year, the IRS will allow tax payers to split their refunds between up to three accounts
- **California has adopted refund splitting.** In July of 2006, California became the first state to allow refund splitting. The state was motivated by the fact that it has the 4th highest rate of asset poverty in the country.[4]

Thank you for your consideration.

Sincerely,

Justin Fanslau
Associate Director
HACBED

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[1] Hersh M. Shefrin and Richard H. Thaler. "Mental Accounting, Saving, and Self-Control," in G. Loewenstein and J. Elster, eds. *Choice Over Time* (New York: Sage Foundation), 1992; Richard H. Thaler. "Psychology and Savings

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Refund splitting

BILL NUMBER: SB 2838

INTRODUCED BY: Chun Oakland, Baker, English, Espero, Gabbard, Hanabusa, Hooser, Ige, Ihara, Kim, Kokubun, Menor, Nishihara, Sakamoto, Taniguchi, Tokuda and 2 Democrats

STAFF COMMENTS: Adds a new section to HRS chapter 235 to require the department of taxation to revise its return forms to allow an individual taxpayer to designate up to three checking or savings accounts at financial institutions for direct deposit of a taxpayer's refund.

EFFECTIVE DATE: Tax years beginning after December 31, 2007

STAFF COMMENTS: On the federal level, taxpayers are permitted to designate up to two or three accounts at financial institutions into which they can have their income tax refund deposited quicker than by opting to receive a check, thereby eliminating the additional processing time and resources it takes to process a paper check. On the state level, only one account may be designated.

The proposed measure would require the department of taxation to revise its individual income tax forms to allow taxpayers to have their income tax refunds directly remitted to up to three accounts at one or more financial institutions. While this may result in more processing time by the department of taxation since routing, depositing and tracking information must be verified, the additional time it takes to process the tax refund to be deposited at more than one financial institution may be lost, thereby eliminating any advantage to utilize a direct deposit. At the federal level, in order to split the refund, an additional form must be filed thereby increasing the amount of paperwork. Thus, there is additional cost incurred for the splitting of the refund. One must ask whether or not the cost of doing so at the state level is worth the convenience.

In addition, lawmakers need to consider the liability exposure of having the department assuming the responsibility to split a refund as requested should some error occur. At this point, the only exposure is to insure the amount of the refund is correct. Should the taxpayer dispute how much went into one bank versus a savings and loan or a credit union, that would raise the exposure of the state for being held responsible for the correct split of the refund. One also has to question the personal responsibility of the taxpayer of assuming the management of his or her funds. At this point, the only thing that the state tax department should be held responsible for is a correct amount of a refund.

Digested 2/11/08