

STAND. COM. REP. NO. **558**

Honolulu, Hawaii

MAR 06 2009

RE: S.B. No. 1197
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fifth State Legislature
Regular Session of 2009
State of Hawaii

Madam:

Your Committee on Ways and Means, to which was referred S.B. No. 1197 entitled:

"A BILL FOR AN ACT RELATING TO THE ECONOMY,"

begs leave to report as follows:

The purpose of this measure is to ensure the effectiveness and accountability of tax expenditures by requiring them to be reviewed every other year.

Specifically, this measure requires the Department of Taxation to submit in each odd-numbered year a report to the Legislature on all tax expenditures in effect. The report shall include information on:

- (1) The purpose and intent of each tax expenditure;
- (2) Any revenue loss resulting from the expenditure; and
- (3) An evaluation of whether the tax expenditure is achieving its intended policy goals, the cost effectiveness of the expenditure, alternatives to the expenditure, and the feasibility of continuing each tax expenditure.

Further, this measure requires all legislation that creates new or expands existing tax expenditures to contain provisions that require:

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- (1) A sunset provision;
- (2) An evaluation or study;
- (3) Recapture provisions for taxpayers that fail to meet the requirements under the tax expenditure; and
- (4) Measureable goals and objectives.

For the purposes of this measure, "tax expenditures" includes tax credits, deductions, exclusions, exemptions, and any other tax benefits.

Testimony in support of this measure was submitted by one organization. One state agency and one organization submitted comments. Written testimony presented to the Committee may be reviewed on the Legislature's website.

Your Committee finds that periodic evaluations of tax expenditures by the State will enable the State to make fiscally-sound and effective spending decisions. Tax expenditures are a less visible use of public resources than public spending, and as such, they deserve careful scrutiny to determine their effectiveness. Your Committee believes that responsible fiscal planning should include an evaluation of the true costs of tax expenditures and result in funding of only those programs that provide an effective and efficient use of tax revenue, especially in a time when revenue is limited.

Accordingly, your Committee finds that the reporting of the costs and uses of tax expenditures will help policy-makers evaluate the effectiveness of tax benefit programs and determine whether those programs are succeeding in meeting their objectives.

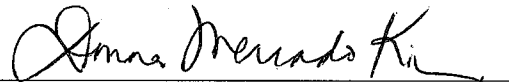
Upon further review, your Committee has amended this bill by placing the language of subsection (d) of the new section being added to the Hawaii Revised Statutes into a separate new statutory section, entitled "Tax expenditures; required elements" for purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 1197, as amended herein, and recommends that it pass Second



Reading in the form attached hereto as S.B. No. 1197, S.D. 1, and
be placed on the calendar for Third Reading.

Respectfully submitted on
behalf of the members of the
Committee on Ways and Means,




DONNA MERCADO KIM, Chair



The Senate
Twenty-Fifth Legislature
State of Hawaii

Record of Votes
Committee on Ways and Means
WAM

Bill / Resolution No.:* SB 1197	Committee Referral: WAM	Date: 02/23/09		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
KIM, Donna Mercado (C)	✓			
TSUTSUI, Shan S. (VC)	✓			
CHUN OAKLAND, Suzanne	✓			
ENGLISH, J. Kalani				/
FUKUNAGA, Carol				/
GALUTERIA, Brickwood	✓			
HEE, Clayton				/
HOOSER, Gary L.	✓			
KIDANI, Michelle N.	✓			
KOKUBUN, Russell S.	✓			
TOKUDA, Jill N.	✓			
HEMMINGS, Fred	✓			
TOTAL	9			3
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes