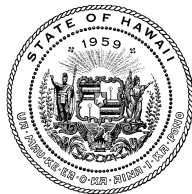


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SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TAXATION

TESTIMONY REGARDING SB 255 RELATING TO TAX CREDITS

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

DATE: FEBRUARY 6, 2009

TIME: 1:15PM

ROOM: 016

This bill proposes to amend Chapter 235 by adding a new section, which contains a tax credit for employers of telecommuters.

The Department of Taxation (Department) **take no position on the merits** of this legislation; **however opposes the bill due to its revenue impact.**

IMPORTANCE OF TELECOMMUTING

The legislation is an interesting incentive that provides a tax credit for employers that allow employees to work from home. Telecommuting can have several benefits to not only individual employees, but also the community at-large. For example, there is one less car on the roads for every employee working from home. Moreover, telecommuting provides flexibility with childcare and other duties during a workday.

GENERAL COMMENTS

ADMINISTRATIVE BURDENS—The bill requires the Department to provide tentative approval of the credit costs prior to the costs being incurred. The Department appreciates the intent of the preapproval requirement in order to maintain the statutory cap; however the Department's already limited resources would be further impacted. The bill also needs to adequately define critical components of the credit, such as "attainment areas."

FINANCING THE ASSESSMENT—The Department questions whether the law also needs to finance the assessment on the feasibility and modifications necessary to accomplish telecommuting. The Department suggests eliminating the credit for the telecommute assessment and allow the employers to shoulder this cost. This would also allow for more credits to be available for the actual telecommuting. It would be unfortunate to see a majority of the credit be spent on

feasibility studies; with no credits available to finance the actual costs of accomplishing the goal of this bill.

RECAPTURE—The Department points out that this bill lacks a recapture provision. For a credit as potentially generous as this, the Department recommends that there be a 100% recapture for any telecommuting agreement that ceases in the first few years. The recapture could be crafted such that if an employee quits or is fired, the credit-funded telecommuting equipment and facilities need to be transferred to another employee.

OPPOSED DUE TO COST— The Department cannot support the tax provision in this measure because it is not factored into the budget. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

REVENUE IMPACT

This bill will result in a revenue loss of \$2 million per year due to its cap.

Senator Carol Fukunaga, Chair
COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

Senate Bill 255

Friday, February 6, 2009

1:15 p.m. Conference Room 016, State Capitol, 415 South Beretania Street

Introduction

My name is Louis Darnell and I am the president of ComTel, a local communications technology company. I am testifying on behalf of Senate Bill 255. I strongly support the passage of Senate Bill 255.

Content

We must enact a tax incentive for private sector organizations to invest in communications and information technology that will enable a significant portion of our workforce to work remotely for all the reasons described in Senate Bill 255.

Telework is the single most important initiative we can implement:

- Good for businesses and the public because it can dramatically reduce operating costs without laying off employees;
- Good for government and tax payers because tax incentives will cost a fraction of other options in place to reduce traffic congestion.
- Telework has the potential to take infinitely more vehicles off our roads than mass transit and other transportation infrastructure improvements alone.
- Teleworking may do more to protect our fragile environment than any other planned environmental initiative.
- Teleworking can be the foundation for diversifying our economy as it will encourage more knowledge based businesses which can supplement tourism and the military as our economic pillars.
- Our work force will be able to enjoy a better life/work balance while achieving higher productivity.

A prerequisite understanding for successful telework deployment is the concept that work is an activity and not a place. This idea has substantial implications for the way workforces must be

lead and managed. A tax incentive will motivate organizations to evaluate and experiment with the concept. Key to management's support for teleworking will be communication and collaboration tools that will enable management's confidence.

Effective, distributed organizations will rely on the concepts of Presence and Unified Communications. Presence provides the availability of internal and external personnel. At ComTel, I can look at my cell phone or PC and know whether my employees are on line, on a phone call, in a meeting, inactive for 5 to 20 minutes or logged off. With this information, I can decide when and how to best communicate. For example, if someone is on a phone call, I send an instant message. Unified Communications brings every means of communicating to my finger tips with a right click of my mouse. When I right click on an employee's name, I can chose to call on the phone, send an email, initiate an instant message, launch a video conference and/or conduct web collaboration. If I want to see what someone sees on their PC or I want them to see mine, I launch a web collaboration session.

These capabilities require secure internet connections for remote workers and PC based software applications that provide the functionality described. A tax incentive will motivate decision makers to adopt teleworking.

I am confident because ComTel first started teleworking when a key employee became pregnant and did not want to return to work because of her baby. We experimented with her working from home and found the procedures and policies that resulted in success. That employee now lives in Utah and is on the phone every day with our customers using Internet technology.

In February of 2008, our positive experience and confidence in the technology encouraged me to distribute my employees. All of my sales staff, engineers and executives work remotely. My operations staff works in a Kalihi office because we dispatch technicians from there and we maintain our inventory there. We also maintain a telework center in subleased downtown space to conduct demonstrations.

As a result, we have reduced our rent by 60% and parking costs by 90%. These savings have enabled us to retain all of our employees who are the core of our business. These cost reductions have also increased our profitability. Remote workers appreciate they have regained control over 2 hours a day previously spent in traffic. They also appreciate the savings in gas consumption, vehicle ownership and maintenance and insurance. One employee sold a car. In addition to a better life/work balance, employees are proud of how we have reduced our carbon footprint.

Because telework requires a major cultural change, most organizations will want to take an incremental approach and validate the concept with a pilot project. If every business has one employee work remotely as part of pilot projects, the state wide benefit would be astronomical.

Assuming we have 60,000 businesses and 50,000 of them have an employee who would no longer need to drive an hour to work, we would achieve the following annual benefits:

Vehicle miles not driven	224,900,000,000
Tons of Air pollution avoided	33,285,200,000
Work years not spent commuting	18,750,000
Gallons of gasoline not consumed	13,250,000,000

Teleworking is delivering economic, social and environmental benefits around the world and we owe it to the people of Hawaii to stimulate the same results.

Closing

In conclusion, the benefits and viability of Teleworking are well established and accepted throughout the US and internationally. ComTel's local success offers further testimony in support of tax incentives to motivate others to leverage telework technology.

We must acknowledge telework benefits; educate the public and government and provide incentives to embrace change so that payroll reductions are the absolute last resort and not the first. Senate Bill 255 is the right legislation at the right time for our economy, environment and people!

Respectfully submitted,

Louis Darnell
President
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