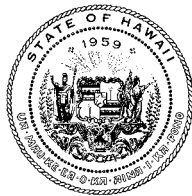


SB2874

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

STANLEY SHIRAKI
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

**SENATE COMMITTEE ON EDUCATION AND HOUSING
TESTIMONY REGARDING SB 2874
RELATING TO TAXATION**

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

DATE: FEBRUARY 10, 2010

TIME: 1:20 PM

ROOM: 225

This measure allows a taxpayer to designate any portion of the taxpayer's refund amount for the school-level minor repairs and maintenance special fund and the libraries special fund. Currently, the law allows a taxpayer to designate \$2 of the refund for these purposes.

The Department of Taxation (Department) **opposes** this measure because it **will divert funds away from other vital functions of the Department.** The Department will need to rework the forms and the instructions, and will expend considerable resources to reprogram its computers in order to enable taxpayers to designate any portion of their refund for the school-level minor repairs and maintenance special fund and the libraries special fund. Historically, check-offs and voluntary contributions have not provided a meaningful source of revenue to the funds intended, but the Department will have expended considerable funds and time in making the change.

Date: 02/10/2010

Committee: Senate Education and
Housing

Department: Education

Person Testifying: Kathryn Matayoshi, Interim Superintendent of Education

Title of Bill: SB 2874 RELATING TO TAXATION.

Purpose of Bill: Creates a blank fill-in amount for the school-level minor repairs and maintenance special fund and the libraries special fund income tax check-off boxes.

Department's Position: The Department of Education supports SB 2874. The Department appreciates the Legislature's support of the need to provide funding for school-level minor repairs and maintenance. Total receipts for fiscal year 2008-09 were \$222,278.



STATE OF HAWAII
HAWAII STATE PUBLIC LIBRARY SYSTEM
OFFICE OF THE STATE LIBRARIAN
44 MERCHANT STREET
HONOLULU, HAWAII 96813

**Senate Committee on Education and Housing
February 10, 2010, 1:20 p.m.
State Capitol, Room 225**

SB 2874 – Relating to Taxation

The Hawaii State Public Library System (HSPLS) is in support of SB 2874 which will create a blank fill-in amount for the income tax check-offs in support of public education and public libraries.

In 2003, Act 193 provided a check-off box on State individual Income Tax Returns that allows taxpayers to make a token donation to support the HSPLS. Taxpayers may designate \$2.00 of their refund or \$4.00 for a joint return for the Hawaii Public Libraries Fund. Thus far, \$431,424 has been generated since the inception of this tax donation option and donations have been steadily increasing even in these tough economic times. The funds have been used to purchase children's books and adult books about Hawaii.

In response to our current economic conditions and revised Council of Revenue projections, the Governor has mandated reductions equivalent to 13.85% or \$2,966,390 for FY 2010-11. Our proposed Supplemental FY 2011 general fund budget of \$25,880,773 is actually reduced by over \$5M, or about 20% less than our FY 2009 general fund budget.

Elimination of positions and closing libraries will be the next step. Our patrons statewide have been constantly seeking an easy and convenient way to have their tax dollars allotted specifically towards the Library. This measure has proven to meet their needs and allows them to express their support of not only HSPLS but public education in the schools. Since the State of Hawaii does not have any referendums put before the voters, these voluntary remittances allow the taxpayer a way to show their support of various causes and organizations. The HSPLS has always pushed for a stable source of funding for our basic core functions. Library books and materials that are in high demand, current, accurate, interesting and informative, are among the primary core service that we provide. Establishing this means of allotting additional revenues to support HSPLS reinforces the state's commitment to education, literacy and lifelong learning; free accessible resources and references; and provides a solid basis for the future of Hawaii's youth and economy.

With HSPLS facing the anticipated budgetary shortfalls resulting from the opening of the new North Kohala and Manoa Public Libraries, sustaining our Internet capacities, maintaining technological support, and the increasing costs of repair and maintenance of our aging buildings, this additional revenue has become a necessity.

Thank you for this opportunity to testify in support of Senate Bill 2874.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax checkoff for school-level repairs and maintenance fund and libraries special fund

BILL NUMBER: SB 2874; HB 2191 (Identical)

INTRODUCED BY: SB by Kidani, Baker, Chun Oakland, Espero, Galuteria, Hooser, Nishihara, Sakamoto, Tokuda, 6 Democrats and 1 Republican; HB by Takumi

BRIEF SUMMARY: Amends HRS 235-102.5 to increase the amount that individuals may designate to the: (1) school-level repairs and maintenance fund, and/or (2) libraries special fund from \$2 to any other dollar amount that is equal to or less than the individual's refund amount.

EFFECTIVE DATE: Tax years beginning after December 31, 2009

STAFF COMMENTS: This measure increases the amount a taxpayer may designate to the: (1) school-level repairs and maintenance fund, and/or (2) the libraries special fund. It should be remembered that utilizing the tax system as a collection agent for such specific purposes sets poor tax policy. For the fiscal year 2009, these funds realized \$111,372 for school repairs and \$96,444 for libraries.

A survey by the Federation of Tax Administrators found that the states that utilize checkoff programs have been experiencing a decline in the amount of moneys designated through the checkoff mechanism. The survey also found that due to the administrative costs associated with the checkoff programs, states which currently have the checkoffs are looking to adopt expiration clauses and other means to remove the less productive checkoffs. Lawmakers seem to view such checkoffs as absolution of their responsibility to deal with such problems by turning the response directly over to the taxpayer. However, in the long run, the cost of administering the checkoff merely siphons resources that should otherwise be used for providing needed public services. Lawmakers can claim credit that they did something for Hawaii's schools without spending any of the tax revenues - that is except for the additional cost of collection and tracking the donated amounts - as the contribution comes from funds that would otherwise have been returned to the taxpayer in a refund.

If lawmakers believe that earmarking funds through a checkoff system is appropriate, then they might consider placing all programs on the state income tax form for designation and consider repealing the legislative body as there will be no reason for the legislature to exist because decisions will have been made by the income taxpayer.

Apparently this proposal is in reaction to the fact that over the years the amount being contributed or checked-off has been declining. If, in fact, there are less and less people interested in contributing to various checkoffs, financing in this way by merely increasing the amount that can be designated will not heighten the awareness or need for public financing of such programs.

Digested 2/9/10