

SB 2874, SD1

LINDA LINGLE
GOVERNOR

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**SENATE COMMITTEE ON WAYS & MEANS
TESTIMONY REGARDING SB 2874
RELATING TO TAXATION**

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

DATE: FEBRUARY 24, 2010

TIME: 10AM

ROOM: 211

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.

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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