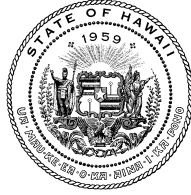


**SB732**

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

SANDRA L. YAHIRO  
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 & HOUSING  
TESTIMONY REGARDING SB 732  
RELATING TO TAXATION**

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

**DATE: FEBRUARY 2, 2009**

**TIME: 1:15PM**

**ROOM: 225**

---

This measure modifies the existing income tax check-off provisions to allow persons with an unspecified refund amount to designate \$5, \$10, or any other whole dollar amount to the School-Level Repair & Maintenance Special Fund.

The Department **opposes this measure due to its administrative costs and burdens, especially in light of the historically small benefits provided by tax check-offs.**

**COMPUTER SYSTEM**—Changes to the Department's computer system will need to be made to implement this legislation. The automatic donation amount from the check of the box will need to be redeveloped to include additional fixed dollar amounts and an unknown variable amount. Making automation changes to the Department's computer system may have an unknown revenue impact on the Department's budget, which has not been considered in this year's budget.

**FORMS**—The Department will need to amend the forms to accommodate this new provision. Currently there are four "check-the-box" contribution programs on the individual income tax return, none of which include blank dollar amounts. The forms must account for the amounts deposited and the allocations to ensure proper funding to the special funds. The additional space needed for these check offs may not be available.

**REVENUES HISTORICALLY SMALL**—The Department understands that the current check-off features on the tax return have historically been very small, which would likely provide little assistance to a budgetary undertaking such as that intended by this measure. The Department is also concerned that the cost to implement this check-off amendment could outweigh the benefit.

It is estimated that a check-off for the school level minor repairs special fund could generate about \$88,000 annually from FY 2010; and the check-off for public libraries could generate about \$77,000 annually from FY 2010.



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 Monday, February 2, 2009**

### **SB 732 - RELATING TO TAXATION**

The Hawaii State Public Library System (HSPLS) is in support of SB 732 which will increase 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, \$341,424 has been generated since the inception of this tax donation option and has been steadily increasing even in these tough economic times. The funds have been used to purchase children's books and adult books about Hawaii.

The greatest challenge facing our State is this global economic crisis. The HSPLS FY 2009 budget has already been reduced by almost 10% or over \$3.5M and our FB 2009-11 Budget Request includes another 10% cut on top of that. 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 allow 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 how they feel on 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 interesting, current, accurate, and informative, are the main core service that we provide. Establishing this means of allotting additional state revenues to support HSPLS reinforces the commitment by the state 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 with the opening of the new North Kohala and Manoa Public Libraries, sustaining its Internet capacities, technological support, and the increasing repair and maintenance of our worn down buildings; this additional revenue has become a necessity.

Thank you for this opportunity to testify in support of Senate Bill 732.

# 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 732

**INTRODUCED BY:** Sakamoto

**BRIEF SUMMARY:** Amends HRS 235-102.5 to increase the amount that individuals may designate from \$2 to \$5, \$10, or any other whole dollar amount and from \$2 to \$5, \$10, or any other whole dollar amount, for each spouse filing jointly, to the: (1) school-level repairs and maintenance fund, and/or (2) libraries special fund.

**EFFECTIVE DATE:** Tax years beginning after December 31, 2008

**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 2008, these funds realized \$113,976 and \$98,106 respectively.

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, then merely increasing the amount that can be designated will not heighten the awareness or need for public financing of such programs.

Digested 1/30/09