

LATE TESTIMONY

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1530
FAX NO: (808) 587-1584

FREDERICK D. PABLO
INTERIM DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 801 RELATING TO TAXATION

TESTIFIER: FREDERICK D. PABLO, INTERIM DIRECTOR OF TAXATION (OR DESIGNEE)
COMMITTEE: ERB
DATE: JANUARY 27, 2011
TIME: 9AM
POSITION: GENERAL COMMENTS; CONCERNED WITH COSTS

This measure conforms Hawaii income tax law to the recently enacted federal Work Opportunity income tax credit. The credit is operative for three taxable years.

The Department of Taxation (Department) has concerns with this measure, including the anticipated revenue loss.

DEFER TO DBEDT & LABOR ON SUBSTANTIVE MERITS—The Department defers to the Department of Business, Economic Development & Tourism and Labor & Industrial Relations on the substantive merits of job creation policies in general.

JOB CREATION INCENTIVES ARE IMPORTANT—The Department supports the general purpose of this legislation, which is to encourage Hawaii employers to hire persons currently unemployed to get Hawaii residents back to work. Hawaii's economy has been struggling in recent years and the Department is supportive of efforts such as this, which in turn will stimulate Hawaii's economy during the period of economic recovery.

CONCERN RELATING TO CONFORMING TO FEDERAL INCENTIVES—The Department points out a general tax policy concern, which is the propriety of providing a "double incentive" for a program already being spearheaded by the federal government. With state revenues scarce and social service priorities growing, the Department questions whether already limited state general fund revenues should go toward programs already being funded by the federal government. For example, the federal Work Opportunity tax credit provides a credit of 40% of first year wages. This measure likewise funds 40% of first year wages. The Department asks, does it make fiscal sense and is it good tax policy to provide a double benefit in today's budget climate?

TECHNICAL COMMENT—The references to Section 38 of the Internal Revenue Code in the bill should be eliminated. These references are unnecessary and confusing.

NO HAWAII REQUIREMENT—This credit is applicable even if the job is located outside Hawaii. The Department suggests that the bill be amended to require that the job be located in Hawaii.

CONCERN FOR REVENUE COST—As with all measures, the Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either.

REVENUE IMPACT—This measure will result in the following approximate revenue losses:

\$138,732 in FY 2011;
\$227,463 for FY 2012;
\$384,178 for FY 2013;
\$312,740 for FY 2014;
\$159,809 for FY 2015; and
\$75,671 for FY 2016.