

POST LATE TESTIMONY

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**Testimony of Thomas J. Smyth, CEcD
Before the
Committee on Economic Revitalization and Business
Thursday, January 27, 2011, 9:00 p.m. Conference Room 312
On
HB 801 Relating to Taxation**

Chair McKelvey, Vice Chair Choy and Committee Members:

I support the purpose of HB 2844 which creates a Work Opportunity Tax Credit (WOTC) to encourage local businesses to hire additional workers. I have concerns with the efficacy of employment tax credits in general and this particular tax credit, whose history shows little success.

The 1994 Federal WOTC was part of Round I of the Federal Empowerment Zone and Enterprise Community Program administered by HUD and USDA. Hawaii did not have enough “distress” to qualify. In 1999, after DBEDT worked with the Hawaii Congressional Delegation, eligibility changed and Hawaii and Alaska became eligible.

DBEDT supported “Empower Committees” on Oahu, Kauai and Molokai to try to gain designation and eventually Molokai became an Enterprise Community in Round II.

The WOTC was narrowly targeted to Empowerment areas and further to hiring of high-risk youth; veterans; ex-felons; summer youth; and food stamp, TANF and SSI recipients. Clearly a group that employers would not usually hire. A wage subsidy was needed.

The major limitation on this type of wage subsidy is that wages are only a part, often even a small part, of the employer’s cost to add workers. Direct costs include fringe benefits: health insurance, unemployment insurance, worker’s compensation and temporary disability insurance. Indirect expenses include: rent for more space, additional equipment or vehicles, additional supervision and training, and other insurance.

If the employer cannot foresee an increase in market share through increased sales, more contracts or other income, adding workers is financially attractive, even if subsidized.

HB 801 is rather technical and detailed in referring to provisions of Sections 38 and 51, Internal Revenue Code. These references may not be necessary if the intent is to merely amend Chapter 235, HRS to include a Hawaii income tax credit for the added hiring.

I suggest that if the bill is to move forward, it be revised to make it less complex and more understandable by potential small business employers.

Thank you for the opportunity to provide comments.