

From: Tina Desuacido [tina500@juno.com]
Sent: Monday, February 07, 2011 9:22 AM
To: ERBtestimony
Subject: Tax Foundation Testimony
Attachments: h0370-11.pdf; h0831-11.pdf; h0983-11.pdf; h1159-11.pdf; h0475-11.pdf

TRANSMISSION OF TESTIMONY

DATE: Monday, February 7, 2011

TO: House Committee on Economic Revitalization & Business

FROM: Tax Foundation of Hawaii

Total Pages 7

FOR: Rep. Angus McKelvey, Chair

Testifier: Lowell L. Kalapa, President - Tax Foundation of Hawaii

(Mr. Kalapa will not appear in person at the hearing.)

Date of Hearing - Tuesday, February 8, 2011

Position: Comments

Time of Hearing - 8:00 am

HB 370 - Relating to the Enterprise Zones (2 pages)

HB 831 - Relating to the General Excise Tax (1 page)

HB 983 - Relating to the Hawaii Strategic Development Corporation (1 page)

HB 475 - Relating to Taxation (1 page)

HB 1159 - Relating to Taxation (2 pages)

Number of copies - 4

Thank you.

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SUBJECT: ADMINISTRATION, INCOME, Issuance of debit card

BILL NUMBER: HB 1159; HB 1160 (Similar)

INTRODUCED BY: Say

BRIEF SUMMARY: Amends HRS section 235-110 to establish provisions to allow the issuance of debit cards for any refundable tax credit. The debit card shall be used only for the purchase of goods and services in the state from persons licensed under the general excise tax. Stipulates that the debit card shall be issued to the taxpayer without a charge or fee. Joint return filers shall only be issued one debit card. HB 1159 authorizes the issuance of debit cards to an individual or corporate taxpayer and HB 1160 authorizes the issuance of debit cards to an individual taxpayer.

The department designated by the governor shall maintain, in the tax reserve fund under HRS section 231-23(c), an account for each taxpayer who is issued a debit card, make cash payments to the seller of goods or services to an individual taxpayer who uses the card, debit the payment amount from the individual taxpayer's account, and administer the program. Allows a department to contract with a private person to administer the debit card program under the department's supervision. Permits the department to charge a seller of goods or services under the program a reasonable transaction fee to cover the cost of the program.

Defines "debit card" for purposes of the measure.

Repeals this act on December 31, 2012 and HRS sections 231-23(c) and 235-110 shall be reenacted in the form in which they read on December 31, 2010.

EFFECTIVE DATE: Tax years beginning after December 31, 2010

STAFF COMMENTS: These measures propose to allow the state to issue debit cards to taxpayers for any refundable tax credit instead of a refund voucher. The proposed measure further stipulates that the debit cards will only be valid in the state and from a person licensed under the general excise tax. It should be noted that not all persons who hold general excise tax licenses will be able to accept a debit card as debit cards are accepted by credit card readers. In addition, debit cards require the holder to enter a PIN number to validate the debit card.

The issuance of a debit card would also preclude taxpayers from using a refundable tax credit for any purpose, i.e., to pay off a loan to make the purchase of the item that qualified for a tax credit. Further, the measure would allow a fee to be charged to the seller of goods or services to cover the cost of the program. This would result in additional costs to the provider of the goods or services, which will be passed on to the taxpayer in the form of higher prices. Before a debit card option is implemented, all of the possible scenarios should be examined.

What this scheme amounts to is nothing more than giving the state the ability to hang on to the refundable credit over a period of time rather than cashing out the credit at the time the credit is claimed and forces the taxpayer to spend the money so that it is subject to the general excise tax. What it fails to realize is that the amount of the credit may have been factored into other costs associated with the exercise of the credit. So in the case of the capital goods excise tax credit which is granted for the purchase of capital equipment to refund the amount of the 4% tax levied on that purchase, the business may have counted on the refund amount to help pay for the new employee that the new capital equipment will require.

However, what lawmakers should take away from this exercise of this bill is that they need to be more cautious in the future about the incentives they adopt and the impact that they will have on the state's finances.

Digested 2/7/11