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March 19, 2012

To: The Honorable Clayton Hee, Chair, Maile S.L. Shimabukuro, Vice Chair, and Members of the Senate Committee on Judiciary and Labor

Date: March 19, 2012
Time: 10:00 a.m.
Place: Conference Room 016, State Capitol

From: Dwight Takamine, Director
Department of Labor and Industrial Relations (DLIR)

Re: HB 2264 HD 1 - Relating to Employment Security

I. OVERVIEW OF PROPOSED LEGISLATION

H.B. 2264 H.D. 1 proposes the following effective July 1, 2013:

- Amend section 383-68, Hawaii Revised Statutes (HRS), to increase contribution rates for employers up to a maximum of 6.6%. Specifically, the proposal raises the tax rates in 21 of the 180 tax rates in the tax schedule system on a graduated basis whereby more of the rates are affected on higher tax rate schedules. The 21 rates increased would affect employers with lowest negative reserve ratios—in other words, those employers who contribute most to the outgo from the Unemployment Trust Fund.

The department supports the proposal, but has serious concerns about the effective date of this bill.

II. CURRENT LAW

The current tax schedule system was implemented by Act 68 (SLH 1991) in 1992 under section 383-68, HRS, with eight tax schedules ranging from the lowest schedule at A and the highest schedule at H. The maximum tax rate is 5.4% on every schedule.

III. COMMENTS ON THE HOUSE BILL

The department supports the proposal, but has serious concerns about the effective date of this bill. The current draft of the measure has a flawed effective date of July 1, 2013. The department strongly advises that the effective date be January 1 of any taxable year because the UI tax system is currently only capable of performing one tax rate calculation per year Mid-year rate recalculations cannot be performed without a complete redesign of the existing UI tax system, including all web and Windows-based UI tax applications. It is estimated that a redesign will take over two years to implement at a cost of at least $23 million.

Employers and payroll service companies will also have the added burden and expense of re-engineering their software and accounting systems to accommodate this change of having two different tax rates in 2013.