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Sent: Wednesday, February 02, 2011 9:08 AM
To: ERBtestimony
Subject: Tax Foundation Testimony
Attachments: h0813-11.pdf

TRANSMISSION OF TESTIMONY

DATE: Wednesday, February 2, 2011

TO: House Committee on Economic Revitalization & Business
House Committee on Labor & Public Employment

FROM: Tax Foundation of Hawaii

Total Pages 1

FOR: Rep. Angus McKelvey, Chair
Rep. Karl Rhoads, Chair

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

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

Date of Hearing - Thursday, February 3, 2011

Position: Comments

Time of Hearing - 11:00 am

HB 813 - Relating to Unemployment Compensation (1 page)

Number of copies - 4

Thank you.

TAXBILLSERVICE

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SUBJECT: INCOME, Exclude unemployment benefits

BILL NUMBER: HB 813

INTRODUCED BY: Say

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to provide that unemployment compensation received by a taxpayer shall not be taxable unless: (1) the individual taxpayer receives more than \$28,800 in gross income from sources other than unemployment compensation; (2) the individual taxpayer's spouse receives more than \$48,000 in gross income from sources other than unemployment compensation, whether or not they file individually or jointly; or (3) both of the previous occur. This section shall be applicable to tax years beginning after December 31, 2010 and shall end with the taxable year beginning after December 31, 2014.

Makes conforming amendments to HRS sections 235-2.3(b), 235-2.4(c) and 383-163.6.

EFFECTIVE DATE: Tax years beginning after December 31, 2010

STAFF COMMENTS: Currently unemployment insurance benefits are taxable under both the state and federal income tax laws. The proposed exclusion would represent a digression from the state's efforts to maintain conformity between the state and federal income tax laws as no exclusion is available at the federal level. It should be noted that under the federal American Recovery and Reinvestment Act of 2009 (ARRA), the first \$2,400 of unemployment benefits received in 2009 was exempt from federal income taxation. Due to the lack of any federal tax preference, the adoption of this measure may actually create a heavier burden of taxes for the unemployed.

Because this measure would reduce the amount of income that would be subject to the state income tax and therefore reduce the taxpayer's state income tax bill, the amount of state taxes that could then be deducted against federal income would also be reduced, exposing more income to the federal tax rates which are set at a much higher rate. Thus, this measure actually increases the unemployed's federal tax burden and shifts what could have been state tax revenues to the federal government.

Digested 2/2/11