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## LATE TESTIMONY

### HOUSE COMMITTEES ON ECONOMIC REVITALIZATION & BUSINESS AND LABOR & PUBLIC EMPLOYMENT

#### TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 813 RELATING TO UNEMPLOYMENT COMPENSATION

**TESTIFIER:** FREDERICK D. PABLO, INTERIM DIRECTOR OF  
TAXATION (OR DESIGNEE)  
**COMMITTEE:** ERB-LAB  
**DATE:** FEBRUARY 3, 2011  
**TIME:** 11AM  
**POSITION:** OPPOSED TO REVENUE LOSS

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This measure excludes unemployment compensation from gross income for taxable years beginning after December 31, 2010 and before January 1, 2015.

The Department of Taxation (the "Department") **opposes** this legislation due to the **unbudgeted revenue loss**.

**UNEMPLOYMENT COMPENSATION IS A WAGE SUBSTITUTE—**  
Unemployment insurance benefits are generally viewed as a substitute for wages and thus, subject to income tax under both Hawaii's tax laws and the Internal Revenue Code. Unemployment compensation is not a welfare program.

**UNEMPLOYMENT COMPENSATION IS TAXABLE FEDERALLY—**  
This measure would also take Hawaii tax law out of conformity with the Internal Revenue Code. For tax year 2010, unemployment compensation is fully taxable. In 2009; however, the Internal Revenue Code provided up to \$2,400 in tax free unemployment compensation. This federal exclusion was only in effect for one year. The Department prefers conformity to federal law.

**FISCAL CONSTRAINTS**—While the Department is sympathetic to the high number of unemployed individuals, budgetary constraints require that the Department oppose this legislation. Even if this measure had a sunset date, the annual fiscal impact alone is significant.

**REVENUE LOSS**— Assuming the bill becomes effective after tax filings for calendar 2010 have been completed, the revenue loss would be \$20 million in FY 2012, \$10 million each year from FY 2013 through FY 2015.