

**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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STATEMENT OF

RICHARD C. LIM, DIRECTOR
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM

BEFORE THE

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

Monday, January 30, 2012

1:15 P.M.

State Capitol, Conference Room 016

In consideration of

SB 2947

RELATING TO TAXATION

Chair Fukunaga, Vice Chair Wakai and members of the committee.

The Department of Business, Economic Development and Tourism offers comments on this measure which would require state agencies managing tax credits to provide a report to the Department of Taxation by September 30 each year for the prior fiscal year's activity.

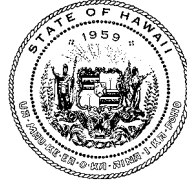
DBEDT currently certifies applications for Act 88, HRS 235-17, the Motion Picture, Television, Digital Media tax credit for the Department of Taxation. DBEDT, through its Creative Industries Division/Hawaii Film Office which administers this program, provides pertinent information as described in this measure to the Department of Taxation. Additional verification of taxpayer information is the responsibility of the Department of Taxation.

DBEDT will continue to provide aggregate data regarding HRS 235-17 and update the legislature annually on the overall estimated production activity and economic impacts of the film, television and digital media industries. We defer to Department of Taxation as to any concerns with the program as outlined in SB 2947.

Thank you for the opportunity to provide comments on this measure.

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



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FREDERICK D. PABLO
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

LATE

To: The Honorable Carol Fukunaga, Chair
and Members of the Senate Committee on Economic Development and Technology

Date: Monday, January 30, 2012

Time: 1:15 p.m.

Place: Conference Room 016, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. 2947 Relating to Taxation

The Department of Taxation (Department) appreciates the intent of S.B. 2947, but has concerns about its ability to implement the bill due to the impact it will have on the Department's limited budget and staffing resources, if adopted.

S.B. 2947 requires the Department of Taxation ("Department") and other state agencies to submit an annual report to the Legislature regarding tax credits or exemptions that have economic development-related purpose. The state agency required to certify or otherwise administer the tax credit or exemption shall submit a report to the Department. If no agency is required to certify or administer the tax credit or exemption, or if certification or administration of the tax credit or exemption is not otherwise required, the Department is required to prepare the report. This report is in addition to the tax credits report as required by HRS §231-3.4.

The Department lacks the resources to complete the proposed reports set forth in this measure and notes the following concerns:

- Only a handful of economic development-related credits or exemptions require certifications or are administered by other state agencies; most credits and exemptions are administered by the Department.
- Many businesses operate on a calendar, not fiscal year basis, making it difficult to obtain the necessary information by the September 30th deadline.
- Subsection (b) requires the gathering and reporting of confidential taxpayer information. Subsection (c) waives the requirement for "proprietary information or any other information exempt from disclosure as determined by the department". Since any other taxpayer-specific information may not be disclosed, there is little or no information that can be reported.

Thank you for the opportunity to provide comments.



Written Statement of

KARL FOOKS

President

Hawaii Strategic Development Corporation
and

Yuka Nagashima

Executive Director and CEO

High Technology Development Corporation

before the

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

January 30, 2012

1:15 PM

State Capitol, Conference Room 016

In consideration of

SB 2947 RELATING TO HIGH TECHNOLOGY.

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee on Economic Development and Technology:

The Hawaii Strategic Development Corporation (HSDC) and the High Technology Development Corporation (HTDC) support the intent of SB 2947 to collect metrics that would allow the economic impact of various tax programs to promote economic development to be measured systematically.

HSDC and HTDC defer to the Department of Taxation on the appropriate mechanism and feasibility of collecting and publishing taxpayer information.

Thank you for the opportunity to submit testimony on this bill



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Thank you for the opportunity to submit testimony on this bill

TAXBILLSERVICE

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SUBJECT: ADMINISTRATION, Annual report on tax credits or exemptions

BILL NUMBER: SB 2947; HB 1678 (Identical)

INTRODUCED BY: SB by Ige; HB by Takumi

BRIEF SUMMARY: Adds a new section to HRS chapter 231 to provide that for every authorized state tax credit or exemption that is related to economic development, the state agency required to certify or otherwise administer the tax credit or exemption shall submit a report to the department of taxation by September 30 of each year regarding tax credits or exemptions approved in the prior fiscal year. If no agency is required to certify or administer the tax credit or exemption, the department of taxation shall prepare the report.

Each report shall include the following information: (1) the name of each taxpayer approved for the tax credit or exemption; (2) the address of the taxpayer; (3) the total amount of credit against tax liability, reduction in taxable income, or exemption from property taxation granted to the taxpayer; (4) specific outcomes or results required by the tax credit or exemption and information about whether the taxpayer meets the requirements; (5) an explanation of the agency's certification decision for the taxpayer, if applicable; (6) any other information submitted by the taxpayer and relied upon by the agency in its certification determination; (7) any other information that the agency deems valuable as providing context for the information required; and (8) any other information required by the department.

The information required shall not include proprietary information or any other information exempt from disclosure. The information shall be compiled and posted on the department of taxation's website no later than December 31 and shall be accessible in the format and manner required by the department and be separate from the report on tax credits required by HRS section 231-3.4.

EFFECTIVE DATE: July 1, 2012

STAFF COMMENTS: The proposed measure would require the department of taxation to collect information from various state agencies relating to any state tax credit or exemption and post such information on the department's website. While this would entail constructing a database of detailed information along with their results, it is questionable whether the department of taxation has the resources and staff to undertake such a project.

Given that these tax credits, tax exclusions, and tax exemptions are a back door expenditure of public dollars, the granting of these preferences should be subjected to the same scrutiny that appropriation and expenditure of tax dollars are subjected to under the rubric of the procurement code. How can policymakers justify the establishment of such tax incentives when there is no means by which to measure whether or not the promise of jobs, economic stimulation, or growth in the industry has resulted if this information is not available?

Conversely, if these beneficiaries want to feed on public dollars through these tax incentives, then they should be more than willing to reveal how those dollars were used and how those dollars benefitted the taxpaying public. The analogy is something akin to having to put the quarter in the juke box if one wants to dance. Although it will take resources, at the very least, the tax department should begin to collect this data as these preferences have a substantial impact on the revenue base and tax collections.

During the late 1970's when money was also tight, the department of budget and finance used to publish a listing of all exemptions but placed no dollar figure on each as they were not in the position to collect that information. The department of taxation, on the other hand, already does collect some data about tax credits and publishes that information. However, with the help of technology, the department should be able to collect data such as exemptions from the general excise tax as that is specific information that the claimant must file on his or her return. Exclusions may be a bit more difficult to capture as that is not a number that may be required to be listed as it is an exclusion of a certain type of income, such as pensions. However, that data probably could be collected from federal data for Hawaii.

Regardless, the taxpayers deserve to know how much is being provided in tax incentives where there is no apparent evidence that the claiming taxpayer needs relief from an undue burden. Many of these tax incentives are targeted business tax incentives while others intend to get taxpayers to act in a particular manner, none of which is related to the tax burden of the claimant.

Digested 1/29/12