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To: The Honorable Ryan I. Yamane, Chair
and Members of the House Committee on Transportation

Date: Monday, February 3, 2014
Time: 10:00 A.M.
Place: Conference Room 309, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. No. 2064, Relating to Public Transportation Incentives

The Department of Taxation (Department) provides the following comments regarding H.B. 2064 for your consideration.

H.B. 2064 creates a nonrefundable income tax credit equal to amounts a taxpayer spends on purchasing public transportation passes during a taxable year, subject to an unspecified cap.

First, the Department suggests that the Committee consider a federal and Hawaii adjusted gross income limitation so that the taxpayers who qualify are the group that this measure is intending to benefit. Without such a limitation the State's limited resources may end up going to taxpayers who are not in need of such assistance.

Second, the Department suggests that the caps in subsection (b) be clarified. One way to clarify the cap in subsection (b)(1) may be to set the credit limit per qualified exemption claimed on an individual tax return. That way the credit will vary on the household size. The Department notes that if the cap is set per qualified exemption, taxpayers who are 65 years of age and older would be eligible for twice the cap amount.

Third, the Department suggests that the provision allowing employers to take the credit either be deleted or set at a significantly lower credit amount than the individual amount because employers can already deduct paid for employee transportation from their gross income. This is because when an employer provides a public transportation pass, in most cases the value of that pass, would be deemed income of the employee. This measure would have the effect of providing a double tax benefit by allowing an employer to deduct the amount paid from gross income and claim a credit for the same expense paid.

Thank you for the opportunity to provide comments.