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LATE

To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Wednesday, April 10, 2013
Time: 3:00 p.m.
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.C.R. No. 158/H.R. 127 Requesting a Study of the Fairness of Hawaii Taxation Law with
Regard to Itemized Deductions, Especially in Light of the Recent Enactment of the American
Taxpayer Relief Act of 2012.

The Department **opposes** H.C.R. No. 158/H.R. 127 and provides the following
information and comments for your consideration.

H.C.R. No. 158/H.R. 127 requests the Director of the Department of Taxation
(Department) to study the treatment of itemized deductions under Hawaii law and federal law
and analyze the fairness of the Hawaii treatment. The study is to consider the repeal of Hawaii's
limits on itemized deductions, the feasibility of conforming with federal treatment of itemized
deductions, and the impact of the current treatment of itemized deductions under Hawaii law.

The Department notes that there is no objective measure of "fairness" to apply to the
differing treatments under Hawaii and federal law; therefore, the Department would not be able
to comply with the intent of the Resolution. The ultimate fairness and equity of the State's tax
system is a policy decision and a matter for legislative deliberation.

The Department also notes that a study of this type could not be completed prior to the
2014 legislative session. Complete state and federal income tax data necessary to conduct this
study is usually not available until approximately two years after the close of the tax year. Data
is not available due to the fact that the Department must wait until all taxpayers have filed;
taxpayers typically file within twelve months after the close of a taxable year. An additional six
months is allowed for the filing of fiscal year filers. The Department must also wait for receipt of
the relevant federal income tax data.

Even with the appropriate data, the Department is lacking qualified personnel to extract and compile the necessary data. All of the Department's statistician positions are currently vacant; they had been abolished during the Reduction in Force in 2009. Although the Legislature authorized statistician positions last year, the Department has not yet been able to fill any of the positions.

For these reasons, the Department is unable to complete a study as set forth in the Resolution prior to the 2014 legislative session.

Thank you for the opportunity to provide comments.