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LATE

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To: The Honorable David Y. Ige, Chair
and Members of the Senate Committee on Ways and Means

Date: Wednesday, January 30, 2013
Time: 9:00 a.m.
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. No. 1184 Relating to Conformity of the Hawaii Income Tax Law to the Internal Revenue Code

The Department of Taxation (Department) strongly supports this bill to provide income tax conformity with the Internal Revenue Code.

S.B. 1184 is the Department's annual bill to update the Hawaii income tax law to conform to changes to the Internal Revenue Code that occurred in calendar year 2012.

In 2012, Congress enacted very few tax measures, however, on January 2, 2013, Public Law 112-240, also known as American Taxpayer Relief Act of 2012 was enacted (Taxpayer Relief Act). The Taxpayer Relief Act included many provisions which extended or retroactively extended tax features that expired or were set to expire. To accommodate the late enactment of the Taxpayer Relief Act, the Department is recommending amendments to the dates in sections 235-2.3 and 235-2.5, Hawaii Revised Statutes, to allow for conformity with the federal law.

The following federal legislation contains tax provisions that were analyzed to determine whether Hawaii should conform to the enacted Internal Revenue Code changes:

1. "Airport and Airway Extension Act of 2012," P.L. 112-91, enacted on January 26, 2012;
2. "FAA Air Transportation Modernization and Safety Improvement Act," P.L. 112-95, enacted on February 6, 2012;
3. "Middle Class Tax Relief and Job Creation Act of 2012," P.L. 112-96, enacted on February 22, 2012;
4. "Surface Transportation Extension Act of 2012," P.L. 112-102, enacted on March 30, 2012;

5. "Temporary Surface Transportation Extension Act of 2012," P.L. 112-140, enacted on June 29, 2012;
6. "Moving Ahead for Progress in the 21st Century Act," P.L. 112-141, enacted on June 29, 2012;
7. "To amend the African Growth and Opportunity Act," P.L. 112-163, enacted on August 10, 2012;
8. "American Taxpayer Relief Act of 2012," P.L. 112-240, enacted on January 2, 2013;

The Department recommends nonconformance for those Internal Revenue Code provisions that we have consistently not conformed to in the past.

Section 2 of this bill amends section 235-2.3(a), HRS, to conform the Hawaii Income Tax Law to the operative Code sections of subtitle A, chapter 1, amended as of January 2, 2013. The date was extended to conform to the Taxpayer Relief Act because it affected many income tax provisions that Hawaii conforms to. Generally, subtitle A, chapter 1, refers to Code sections 1 through 1400T.

Section 3 of this bill amends section 235-2.5, by amending the date as of which the Internal Revenue Code would be adopted.

Thank you for the opportunity to provide comments.