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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 11, 2013 3:39 PM
To: HUS testimony
Cc: ajc@aloha.net
Subject: *Submitted testimony for SB98 on Mar 12, 2013 09:30AM*

Categories: Maroon

SB98

Submitted on: 3/11/2013

Testimony for HUS on Mar 12, 2013 09:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Alika Campbell	Individual	Support	No

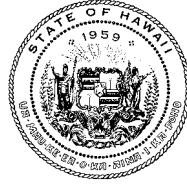
Comments:

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To: The Honorable Mele Carroll, Chair
and Members of the House Committee on Human Services

Date: Tuesday, March 12, 2013

Time: 9:30 a.m.

Place: Conference Room 329, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. 98, S.D.1, Relating to Taxation

The Department of Taxation (Department) **appreciates the intent** of S.B. 98, S.D. 1, and provides the following information and comments for your consideration.

S.B. 98, S.D.1: (1) replaces the refundable food/excise tax credit with a nonrefundable low-income tax credit; (2) increases the amount of the tax credit that each qualified taxpayer could claim, based on their federal adjusted gross income (AGI) and Hawaii AGI; and (3) accounts for the various tax filing statuses.

The Department appreciates the desire to provide financial support to low-income residents, who may fall below the federal poverty guidelines, but are still required to pay state income taxes. The Department, however, notes that the tax structure is not the most efficient method of providing financial support to certain individuals.

A tax return requires the reporting or not, of certain types of income and losses occurring in the immediately preceding taxable year, and is not necessarily reflective of whether an individual is rich or poor. For instance, a tax return does not take into account any assets that the taxpayer may have, and therefore, is not a reliable method of determining an individual's wealth.

If the Legislature would like to pursue tax-based relief for individuals through the tax system, the Department believes the S.D.1 amendments will provide a more directed application of financial support to low-income individuals.

In recognition of the fact that the tax system is not able to efficiently target certain individuals for financial assistance, the Department also has had discussions with the Department of Human Services (DHS) to explore other avenues to identify and assist low-income individuals.

Finally, the Department notes that in a United States Treasury Inspector General for Tax Administration report entitled " Expansion of Controls Over Refundable Credits Could Help Reduce the Billions of Dollars of Improperly Paid Claims," dated September 7, 2012, the Inspector General observed that,

"Refundable credits, unlike other tax credits, not only have the potential to reduce a taxpayer's tax liability to zero, but also allow the taxpayer to receive a cash payment of any remaining credit amount. This makes refundable tax credits more susceptible to fraud. Without proper controls, billions of taxpayer dollars are vulnerable to erroneous claims and fraudulent tax schemes".

For these reasons, the Department supports conversion of the refundable food/excise tax credit to a nonrefundable tax credit. Changing the tax credit from refundable to nonrefundable is also consistent with the original provisions of this measure.

Thank you for the opportunity to provide comments.