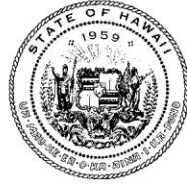


NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
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FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

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

Date: Tuesday, February 25, 2014
Time: 2:00 p.m.
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. No. 1525, Relating to Fiscal Responsibility

The Department of Taxation (Department) offers the following comments on H.B. 1525 for the Committee's consideration.

H.B. 1525 establishes a State Commission on Fiscal Responsibility and Reform (Commission) within the Department for administrative purposes. The Commission will have the authority to review and make recommendations on expenditures, revenue enhancement, and tax reform. The measure, if adopted, will take effect upon approval.

H.B. 1525 designates one member appointed by the Senate and one member appointed by the House of Representatives to serve as co-chairs of the Commission. The members of the Commission include the: (1) two members to be appointed by the Governor; (2) Two members of the Senate, to be appointed by the President of the Senate; (3) two members of the House of Representatives, to be appointed by the Speaker of the House of Representatives; (4) Director of Taxation; (5) one member from the Legal Aid Society of Hawaii; and (6) one member from the Tax Foundation of Hawaii.

H.B. 1525 directs the Commission to: (1) identify policies to improve revenue enhancement in the medium term and to achieve fiscal security over the long term; (2) research and propose recommendations related to spending; and (3) identify steps needed to reform Hawaii's tax laws to create a more balanced and progressive tax structure. The Commission is required to submit a report of its findings and recommendations to the legislature no later than twenty days prior to the convening of the regular session of 2015. The Commission will cease to exist on June 30, 2015.

Department of Taxation Testimony
HB1525, FIN
February 25, 2014
Page 2 of 2

The Department notes that it does not have sufficient resources or expertise to support the proposed Commission in its mission. Instead, the Department suggests that these issues be considered by the next Tax Review Commission (TRC), which is slated to convene in 2015. Given the types of issues and research necessary to address the concerns raised in this bill, the Department believes the TRC is better suited to address these matters.

Thank you for the opportunity to provide comments.

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1525

February 25, 2014

RELATING TO FISCAL RESPONSIBILITY

House Bill No. 1525 establishes a commission within the Department of Taxation to review and make recommendations on expenditures, revenue enhancement, and tax reform.

The Department of Budget and Finance appreciates the intent of this measure to establish a commission to undertake a holistic review of expenditures and revenues. The department strongly recommends that the Director of Finance be included as a member of the commission as any recommendation made by the commission may impact the State's ability to sustain programs and services; develop near- and long-term financial plans and strategies for the State; and financial management of State agencies.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

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SUBJECT: ADMINISTRATION, Commission on fiscal responsibility

BILL NUMBER: HB 1525

INTRODUCED BY: Mizuno

BRIEF SUMMARY: Establishes a state commission on fiscal responsibility and reform within the department of taxation for administrative purposes. The commission shall: (1) identify policies to improve revenue enhancement in the medium term and to achieve fiscal security over the long term; (2) research and propose recommendations related to spending; and (3) identify steps needed to reform Hawaii's tax laws to create a more balanced and progressive tax structure.

Members of the commission shall consist of: (1) two members to be appointed by the governor; (2) two members of the senate, to be appointed by the president of the senate; provided that one is a sitting senator and shall serve as co-chair of the commission; (3) two members of the house of representatives, to be appointed by the speaker of the house of representatives; provided that one is a sitting representative and shall serve as co-chair of the commission; (4) the director of taxation or director's designee; (5) one member from the Legal Aid Society of Hawaii; and (6) one member from the Tax Foundation of Hawaii.

Requires the commission to submit its findings and recommendations to the 2015 legislature. The report shall require the approval of at least two-thirds of the total commission members. The commission shall cease to exist on June 30, 2015.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This measure would adopt the 2012-2013 Tax Review Commission's (TRC) recommendation to establish a commission similar to the National Commission on Fiscal Responsibility and Reform (also known as the "Simpson-Bowles Commission"). The TRC did not specify a time frame within which the commission is to complete its duties. This measure requires the commission to submit its findings and recommendations within approximately nine months, but it is questionable whether that is sufficient time for the commission to complete its duties.

We recommend that the commission's mandate be broadened to "improve tax policy" instead of "improve revenue enhancement" in the medium term. The TRC's recommendation was intended to address the projected budget shortfall in 2013 based on a study by Department of Taxation (DoTAX) economists Joshua Fujino and Donald Rousslang, or in 2014 based on another study done by the TRC consultants, the PFM group, but the governor in his state of the state speech pointed out that the state now has a surplus of \$844 in general fund revenues.

Digested 2/23/14

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24 February 2014

Representative Sylvia Luke, Chair
Representative Scott Y. Nishimoto, Vice Chair
Representative Aaron Ling Johanson, Vice Chair
Committee on Finance

Hearing: Tuesday 25 February 2014
2:00PM
Conference Room 308

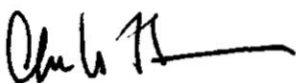
RE: HB1525 – RELATING TO FISCAL RESPONSIBILITY

IN STRONG SUPPORT

This bill was drafted based on a recommendation of the 2013 Tax Review Commission report. In their report they recommended a commission similar to the Federal "National Commission on Fiscal Responsibility and Reform (aka the Simpson-Bowles Commission). The Tax Commission was concerned about the magnitude of the projected shortfall by 2022 (Fujino-Rousslang study) or 2025 (PFM study) and commented that if approached solely from revenue enhancement that the tax burden on Hawaii taxpayers would be severe. The expenditure component must be part of the solution. A third component was included – tax reform – with the goal of creating a fair and progressive tax structure.

Although the Simpson-Bowles Commission is composed primarily of senators and congressmen, experts from outside the legislature have been included in this commission. To include a broader range of expertise, consideration might be given to add an advocate from organized labor, an advocate for the low income population and a member of the most recent Tax Review Commission.

Finally, the cost of assembling this commission could be miniscule compared to the long term benefits that should result from their recommendations.



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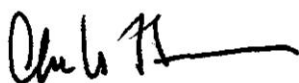
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