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

Date: Thursday, April 3, 2014  
Time: 10:05 a.m.  
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: H.B. 1893, H.D. 1, S.D. 1, Relating to Taxation

Department of Taxation (Department) is strongly **opposed** to the check box portion of H.B. 1893, H.D.1, S.D.1, due to the impact it will have on the Department's limited budget and staffing resources, if adopted.

H.B. 1893, H.D. 1, S.D. 1, proposes to allow taxpayers, with an income tax refund of \$3 or more, an option to designate \$3 (or \$6 in case of a joint return) to the disaster response special fund, to be established with this measure, for taxable years beginning after December 31, 2014. The current version of the bill becomes effective January 1, 2015.

While the Department understands and appreciates the intent of this bill, the Department opposes any request which will require changes its forms and computer system, unless the changes are essential for taxpayer compliance. As the Legislature is aware, the Department has an outdated computer system with significant functionality issues.

Staffing resources necessary to develop and implement modifications to the system also are insufficient. The Department currently is embarking on procuring and developing a new computer system commonly referred to as Tax System Modernization. As a result, the Department's limited resources must be prioritized to address other significant projects that will occur over the next few years, and respectfully request that no new projects be imposed on the Department.

Thank you for the opportunity to provide comments.

TESTIMONY BY KALBERT K. YOUNG  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON WAYS AND MEANS  
ON  
HOUSE BILL NO. 1893, H.D. 1, S.D. 1

April 3, 2014

RELATING TO TAXATION

House Bill No. 1893, H.D. 1, S.D. 1, authorizes an income tax return designation to and creates the Disaster Response Special Fund (DRSF). All assets of the DRSF will be transferred on an annual basis to organizations engaged in responding to everyday disasters and training volunteers to provide shelter and other mass care activities during major disasters.

The Department of Budget and Finance does not take any position on providing additional funding for disaster assistance. However, as a matter of general policy, the department does not support the creation of special funds which do not meet the requirements of Section 37-52.3, Hawaii Revised Statutes. Special or revolving funds should: 1) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program; 2) provide an appropriate means of financing for the program or activity; and 3) demonstrate the capacity to be financially self-sustaining. In regards to House Bill No. 1893, H.D. 1, S.D. 1, it is difficult to determine whether the income tax designation for the DRSF provides an appropriate means of financing.

Furthermore, while making designations for agencies or various organizations on tax returns is a policy decision for the Legislature, other agencies or organizations may seek to obtain a designation on future tax returns, which could

create unintended issues regarding objectivity in selecting which agency is authorized a tax designation or eligible for disbursements from the special fund.

Finally, State staffing and resources will be utilized to annually report to the Legislature on the status (deposits and transfers) of the special funds created by these designations. If additional designations are made, this could place a burden on other departments who must annually make reports on the special fund accounts and manage the assets of each account.

## Testimony on HB 1893 HD1 SD1, Relating to Taxation

by

Coralie Chun Matayoshi, CEO, American Red Cross, Hawaii State Chapter

Senate Committee on Ways and Means  
April 3, 2014, 10:05 a.m., Conference Room 211

Honorable Chair David Ige, Vice Chair Michelle Kidani, and members of the Senate Committee on Ways and Means,

The mission of the American Red Cross is to prevent and alleviate human suffering in the face of emergencies by mobilizing the power of volunteers and the generosity of donors.

The American Red Cross is unlike any other organization. We are mandated by Congress to respond to every disaster that occurs in the United States, which is 70,000 per year or one every 8 minutes. In Hawaii, we respond to disasters about every 4 days. Working side by side with local police, fire, and civil defense, we are the only nonprofit organization that responds to disasters big and small, 24/7, 365 days a year, yet we receive no funds from the federal or state government for disasters.

FEMA's National Response Framework designates the American Red Cross as the primary agency, along with the Department of Homeland Security/FEMA to fulfill Emergency Support Function (EFS) #6 which includes Mass Care, Emergency Assistance, Temporary Housing, and Human Services. We work very closely with State Civil and County Civil Defense agencies, and perform government-like functions in being designated as the lead or primary organization by all counties to plan and execute disaster sheltering operations.

Red Cross is the only non-profit organization that performs these duties 24/7, 365 days/year. Our services are essential and irreplaceable, as we assist county, state, and federal government in their responsibility to provide for the welfare of those who reside in their jurisdictions.

The primary goal of our Disaster Response and Preparedness Program is to recruit, train, and coordinate volunteers to be on call to provide immediate disaster relief assistance to disaster victims, anytime, anywhere. Our immediate and compassionate services reduce the harsh physical and emotional distress that prevents people from meeting their own basic needs and help them get back on their feet after tragedy has struck. Red Cross is the safety net that no other entity provides.

Besides food, clothing, and shelter, the Red Cross provides invaluable crisis counseling through trained volunteer mental health professionals. This service is particularly critical when the disaster involves fatalities or life threatening injuries. Volunteer caseworkers are on the scene within two hours of any disaster to help the family cope with their

losses and to make sure they have long-term resources in place to assist with their recovery. When uninsured families experience extensive losses, we help with first month's rent and security deposit, replace essential household items and work with other community partners to leverage their assistance to provide families with additional sources for free housing while their homes are being rebuilt.. We may also help families with funeral expenses or work with partners to provide group therapy to cope with the death of a pet or family member.

Since disasters can strike at any time without notice, advance preparation makes a significant difference in the well-being of a family or the resiliency of a business. Knowing what to do and how to respond to emergencies is vital to each person's safety and at times, their survival. The more effort we spend on individual and family preparedness, the less money is expended for relief by the government and community organizations. Businesses that invest in disaster planning can help themselves and Hawaii's economy recover more quickly from a catastrophic disaster. Studies show that every \$1 spent on preparedness saves \$4 in response. In Japan, disaster preparedness made a difference between whole villages surviving or perishing after the March 2011 earthquake and tsunami. The Red Cross is dedicated to helping families and communities build their capacity to be ready for emergencies. This knowledge and preparation helps build confidence, peace of mind and an ability to withstand, quickly adapt to, and successfully recover from disasters.

Response is only the tip of the spear. It takes advanced preparation, resources, and infrastructure to be able to respond to any disaster anytime and anywhere. We accomplish this with a small staff and hundreds of volunteers who work 12 hour shifts, morning, noon, and night. Volunteers need to be recruited beforehand and trained, put on call, and deployed at a moment's notice whenever there is a disaster. We are a very efficient and effective organization because we highly leverage our volunteer resources and use them wisely. Over 96% of our workforce are volunteers, and together they donate over 300,000 hours of volunteer time which is equivalent to \$7 million.

We only have 30 employees to operate 8 offices statewide, including Oahu, Maui County, Kauai, and the Big Island. We service Schofield Barracks, Kaneohe Marine Corp Base, Joint Base Pearl Harbor Hickam, and run the entire volunteer program at Tripler Army Medical Center. Funding is needed to support the basic infrastructure of our disaster response and preparedness program so that we can respond to any disaster and prepare the community beforehand to mitigate the loss of life and property. The goals of the Hawaii Red Cross complement those of the State of Hawaii and benefit all of Hawaii's people. We also teach lifesaving skills to 20,000 residents per year and provide emergency communications between deployed military service members and their families 24/7, 365 days/year.

Hawaii is the most isolated population on the face of the earth. Not only are we vulnerable to major disasters like hurricanes, earthquake and tsunami, but flu pandemic and bioterrorist attack. It's not if, but when the next catastrophic disaster will strike our islands, so having the response capacity on island immediately after a disaster is critical. Being prepared can mean the difference between life or death, hopelessness or resiliency, business continuity or bankruptcy.

The Red Cross depends on the generosity of Hawaii's people to provide critical services to our community. Allowing the public a convenient way to support Red Cross will enable us to continue to serve the people of Hawaii.

The original HB 1893 named the American Red Cross, Hawaii State Chapter as the beneficiary of the fund. HB 1893 HD1 SD1 establishes a Disaster Response fund. At least nine other states have a similar donation check off. We urge you to adopt either version to help support the unique and critical work of the Red Cross in Hawaii.

# TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** INCOME, Tax checkoff for disaster response special fund

**BILL NUMBER:** HB 1893, SD-1

**INTRODUCED BY:** Senate Committee on Human Services

**EXECUTIVE SUMMARY:** Adds the disaster response special fund to the growing list of programs for which taxpayers due an income tax refund may designate a portion of that refund. Due to the administrative burden associated with adding new checkoff programs, lawmakers need to take a hard look at whether creation of the new checkoff and the new special fund are necessary. The proposed fund also does not appear to satisfy criteria in the law (HRS section 37-52.3) for establishment or continuance of a special fund.

**BRIEF SUMMARY:** Adds a new section to HRS chapter 235 to allow individual taxpayers whose state income tax refund for any taxable year is \$3 or more, to designate \$3 to be paid into the disaster response special fund. For joint taxpayers with an income tax refund of \$6 or more, each spouse or civil union partner may designate \$3 into the special fund. Directs the director of taxation to revise the state income tax forms as necessary. Allows designations to be made by filing an amended income tax return if filed within 20 months and 10 days after the due date of the original return.

Adds a new section to HRS chapter 127 to establish the disaster response special fund. All assets of the special fund shall be transferred annually to organizations engaged in responding to everyday disasters and training volunteers to provide shelter and other activities during major disasters. Requires the adjutant general to submit a report annually to the legislature on the status of the special fund.

Amends HRS section 235-102.5 to add the term “civil union partner(s).”

**EFFECTIVE DATE:** January 1, 2015; applicable to tax years beginning after December 31, 2014

**STAFF COMMENTS:** This measure adds the disaster response special fund to the list of programs for which taxpayers due an income tax refund may designate a portion of that refund. Previous versions of this bill would have used this checkoff as a fund raising device for the American Red Cross, but because of the objections to the precedent being set, the bill proponents and the Hawaii Department of Defense agreed to this version of the bill which collects funds for disaster relief through a special fund administered by that department.

A survey by the Federation of Tax Administrators found that the states that utilize checkoff programs have been experiencing a decline in the amount of moneys designated though the checkoff mechanism. The survey also found that due to the administrative costs associated with the checkoff programs, states which currently have the checkoffs are looking to adopt expiration clauses and other means to remove the less productive checkoffs.

If lawmakers believe certain programs are of great importance, then they can prioritize those programs through the appropriations process. With the Hawaii tax burden already so heavy, why should taxpayers turn any more of their hard earned dollars over to government? What lawmakers might not appreciate is that by creating these checkoffs, they add to the cost of administering the law, a cost which steals funds from other programs including those enumerated for a checkoff designation.

And as for the new special fund, lawmakers need to keep in mind that HRS section 37-52.3 sets forth criteria for the establishment and continuance of special funds, namely that the special fund: (1) serves a need; (2) reflects a clear nexus between the program and the sources of revenue; (3) provides an appropriate means of financing the program or activity that is used only when essential to the successful operation of the program or activity; and (4) demonstrates the capacity to be financially self-sustaining. Of these criteria, even if we assume (1) and (4) can be met, (2) and (3) have problems. The link between the program (disaster relief) and the sources of revenue (income tax checkoff) is tenuous at best; and the means of financing the program or activity is clearly not only used when essential to the program operation.

Digested 4/1/14