

# HB 1893

## HD1

<b>Measure Title:</b>	RELATING TO TAXATION.
<b>Report Title:</b>	Income tax; Check-off Box; American Red Cross Hawaii State Chapter; Special Fund (\$)
<b>Description:</b>	Authorizes income tax return designations to the American Red Cross Hawaii State Chapter. Effective 07/01/2030. (HD1)
<b>Companion:</b>	<u><a href="#">SB2362</a></u>
<b>Package:</b>	None
<b>Current Referral:</b>	HMS, WAM
<b>Introducer(s):</b>	YAMANE, AQUINO, CULLEN, KAWAKAMI, NISHIMOTO, SAY, SOUKI, TAKAYAMA, TOKIOKA, TSUJI, YAMASHITA, Hashem

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

March 13, 2014

RELATING TO TAXATION

House Bill No. 1893, H.D. 1, authorizes an income tax return designation to the American Red Cross Hawaii State Chapter (ARCHSC). The bill also creates the ARCHSC special fund within the State treasury to receive all donations. All assets of the ARCHSC special fund will be transferred on an annual basis to the ARCHSC.

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 changes 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, it is difficult to determine whether the income tax designation for the ARCHSC provides an appropriate means of financing.

Although making designations for agencies on tax returns is a policy decision for the Legislature, other non-profit agencies may seek to obtain a similar designation on future tax returns. This could create unintended issues regarding objectivity in selecting which agency is authorized a tax designation. For example, the California State Tax Form 540 has designations for 20 agencies including, but not limited to, the following: American Red Cross California Chapters Fund;

California Sea Otter Fund; California Youth Leadership Fund; Municipal Shelter Spay-Neuter Fund; and California Fund for Senior Citizens. While all funds are important to their respective constituencies, this bill may establish a precedence for other non-profit agencies to receive State revenues through the State income tax process.

Furthermore, 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.

NEIL ABERCROMBIE  
GOVERNOR

SHAN TSUTSUI  
LT. GOVERNOR



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To: The Honorable Suzanne Chun Oakland, Chair  
and Members of the Senate Committee on Human Services

Date: Thursday, March 13, 2014  
Time: 1:00 p.m.  
Place: Conference Room 016, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

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

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

H.B. 1893, H.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 American Red Cross Hawaii State Chapter special fund, to be established with this measure, for taxable years beginning after December 31, 2014. H.D. 1 has a defective effective date of July 1, 2030 to facilitate further discussion.

While the Department understands and appreciates the intent of this bill, the Department cannot support 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.

STATE OF HAWAII  
DEPARTMENT OF DEFENSE  
CIVIL DEFENSE DIVISION

TESTIMONY ON HOUSE BILL 1893  
RELATING TO TAXATION

PRESENTATION TO  
THE SENATE COMMITTEE ON HUMAN SERVICES

BY

DOUG MAYNE  
VICE DIRECTOR OF STATE CIVIL DEFENSE  
March 13, 2014

Chair Chun Oakland, Vice Chair Green and Members of the Senate Committee on Human Services:

I am Doug Mayne and I am the Vice Director of State Civil Defense. I am testifying in **SUPPORT** of House Bill 1893.

The American Red Cross performs a public service for the people of Hawaii on an almost daily basis. We often think of the Red Cross in times of large disasters – responding to Hurricane Iniki, Typhoon Haiyan or Superstorm Sandy, where their contributions are large and very noticeable. But the Red Cross performs missions every single day throughout our islands, often overlooked and unnoticed. They provide needed training for volunteers, open shelters to care for victims of fires and other accidents, ensure there are counseling services available when needed, and help families get back on their feet through grants.

The past 15 months the Hawaii State Chapter of the American Red Cross:

- Responded to 82 incidents (from a state-wide tsunami evacuation to single family fires);
- Provided 145 families with immediate emergency assistance with 46% of these families living below the poverty line;
- Opened 27 shelters statewide providing safe shelter for 175 people;
- Reached 21,662 people with critical disaster preparedness information so that they could be ready before disasters strike;
- Provided follow-up calls to 9,743 military families to ensure that they have the support and resources they need;

On average, the Red Cross Hawaii Chapter reaches 28,000 people per year with life-saving courses and responds to local disasters and emergencies every 4 days.

The Red Cross has very close relationships with State Civil Defense and the county Civil Defense Agencies. We regularly conduct joint planning, training and exercises. The Hawaii

State Chapter of the American Red Cross is written into our plans for notification, and we rely on them heavily to assist during disasters for providing, managing, and operating shelters, providing services to groups or individuals, and assisting in damage assessments following disasters.

The Hawaii State Chapter of the American Red Cross has another, very significant, mission that will be critical during our next disaster – they are designated to develop and execute sheltering plans for some of our counties, including the City and County of Honolulu. The Red Cross Hawaii Chapter has agreed to act for these counties in helping to care for the Hawaii Ohana and is, therefore, providing a public service to the people of Hawaii.

Hawaii State Chapter of the American Red Cross operates on a tight budget considering the important roles they provide to our state. This income tax return designation would allow for additional revenue to support this community oriented organization.

Thank you for allowing me to testify in **SUPPORT** of House Bill 1893.

## Testimony on HB 1893 HD1, Relating to Taxation

by

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

Senate Committee on Human Services  
March 13, 2014, 1pm, Conference Room 016

Honorable Chair Susan Chun Oakland, Vice Chair Josh Green, and members of the Senate Committee on Human Services,

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.

If the Legislature finds it preferable to establish a Disaster Response Fund (rather than designating the American Red Cross to receive funds), State Civil Defense has expressed a willingness to receive these funds and would establish a grant application process to distribute the funds. Attached is proposed language for an HB 1893 HD1 SD1.

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# A BILL FOR AN ACT

RELATING TO TAXATION.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

SECTION 1. Chapter 127, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"§127- **Disaster Response; special fund;**  
**established.** (a) There is established in the state treasury  
the disaster response special fund, into which shall be  
deposited all moneys designated to be paid to the special fund  
pursuant to section 235-102.5(e).

(b) All assets of the special fund shall be transferred on  
an annual basis to organizations engaged in responding to every  
day disasters and training volunteers to provide sheltering and  
other mass care activities during major disasters.

(c) The adjutant general shall submit a report no later  
than twenty days prior to the convening of each regular session  
to the legislature on the status of the special fund, including  
deposits into the special fund and transfers of the assets of

the special fund to organizations engaged in responding to every day disasters and training volunteers to provide sheltering and other mass care activities during major disasters."

SECTION 2. Section 235-102.5, Hawaii Revised Statutes, is amended to read as follows:

**"§235-102.5 Income check-off authorized.** (a) Any individual whose state income tax liability for any taxable year is \$3 or more may designate \$3 of the liability to be paid over to the Hawaii election campaign fund, any other law to the contrary notwithstanding, when submitting a state income tax return to the department. In the case of a joint return of a husband and wife or civil union partners having a state income tax liability of \$6 or more, each spouse or civil union partner may designate that \$3 be paid to the fund. The director of taxation shall revise the individual state income tax form to allow the designation of contributions to the fund on the face of the tax return and immediately above the signature lines. An explanation shall be included [~~which~~] that clearly states that the check-off does not constitute an additional tax liability. If no designation was made on the original tax return when filed, a designation may be made by the individual on an amended return filed within twenty months and ten days after the due date for the original return for such taxable year. A designation once made whether by an original or amended return may not be revoked.

(b) Notwithstanding any law to the contrary, any individual whose state income tax refund for any taxable year is \$2 or more may designate \$2 of the refund to be deposited into the school-level minor repairs and maintenance special fund established by section 302A-1504.5, when submitting a state income tax return to the department. In the case of a joint return of a husband and wife or civil union partners having a state income tax refund of \$4 or more, each spouse or civil union partner may designate that \$2 be deposited into the special fund. The director of taxation shall revise the individual state income tax return form to allow the designation of contributions to the special fund on the face of the tax return and immediately above the signature lines. If no designation was made on the original tax return when filed, a designation may be made by the individual on an amended return filed within twenty months and ten days after the due date for the original return for such taxable year. A designation once made, whether by an original or amended return, may not be revoked.

(c) Notwithstanding any law to the contrary, any individual whose state income tax refund for any taxable year is \$2 or more may designate \$2 of the refund to be paid over to the libraries special fund established by section 312-3.6, when submitting a state income tax return to the department. In the case of a joint return of a husband and wife or civil union

partners having a state income tax refund of \$4 or more, each spouse or civil union partner may designate that \$2 be deposited into the special fund. The director of taxation shall revise the individual state income tax form to allow the designation of contributions to the fund on the face of the tax return and immediately above the signature lines. If no designation was made on the original tax return when filed, a designation may be made by the individual on an amended return filed within twenty months and ten days after the due date for the original return for such taxable year. A designation once made, whether by an original or amended return, may not be revoked.

(d) Notwithstanding any law to the contrary, any individual whose state income tax refund for any taxable year is \$5 or more may designate \$5 of the refund to be paid over as follows:

- (1) One-third to the Hawaii children's trust fund under section 350B-2; and
- (2) Two-thirds to be divided equally among:
  - (A) The domestic violence and sexual assault special fund under the department of health in section 321-1.3;
  - (B) The spouse and child abuse special account under the department of human services in section 346-7.5; and



(C) The spouse and child abuse special account under the judiciary in section 601-3.6.

When designated by a taxpayer submitting a state income tax return to the department, the department of budget and finance shall allocate the moneys among the several funds as provided in this subsection. In the case of a joint return of a husband and wife or civil union partners having a state income tax refund of \$10 or more, each spouse or civil union partner may designate that \$5 be paid over as provided in this subsection. The director of taxation shall revise the individual state income tax form to allow the designation of contributions pursuant to this subsection on the face of the tax return and immediately above the signature lines. If no designation was made on the original tax return when filed, a designation may be made by the individual on an amended return filed within twenty months and ten days after the due date for the original return for such taxable year. A designation once made, whether by an original or amended return, may not be revoked.

(e) Notwithstanding any law to the contrary, any individual whose state income tax refund for any taxable year is \$3 or more may designate \$3 of the refund to be deposited into the disaster response special fund established by section 127-  
, when submitting a state income tax return to the  
department. In the case of a joint return of a husband and wife  
or civil union partners having a state income tax refund of \$6

or more, each spouse or civil union partner may designate that  
\$3 be deposited into the special fund. The director of taxation  
shall revise the individual state income tax return form to  
allow the designation of contributions to the special fund on  
the face of the tax return and immediately above the signature  
lines. If no designation was made on the original tax return  
when filed, a designation may be made by the individual on an  
amended return filed within twenty months and ten days after the  
due date for the original return for such taxable year. A  
designation once made, whether by an original or amended return,  
may not be revoked."

SECTION 3. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 4. This Act, upon its approval, shall apply to taxable years beginning after December 31, 2014.

INTRODUCED BY: \_\_\_\_\_

**Report Title:**

Income tax; Check-off Box; American Red Cross Hawaii State Chapter; Special Fund

**Description:**

Authorizes income tax return designations to the American Red Cross Hawaii State Chapter.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*



# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** INCOME, Tax checkoff for American Red Cross

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

**INTRODUCED BY:** House Committee on Finance

**EXECUTIVE SUMMARY:** Adds the American Red Cross to the growing list of programs for which taxpayers due an income tax refund may designate a portion of that refund. Such a measure would create a precedent for state resources being used to collect non-governmental revenues and may open the door to further similar checkoffs for other non government private entities.

**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 to the American Red Cross Hawaii State Chapter 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 American Red Cross Hawaii State Chapter special fund. All assets of the special fund shall be transferred to the American Red Cross Hawaii state chapter annually. 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:** July 1, 2030; applicable to tax years beginning after December 31, 2014

**STAFF COMMENTS:** This measure adds the American Red Cross to the growing list of programs for which taxpayers due an income tax refund may designate a portion of that refund. While the existing tax checkoffs are government programs, this measure proposes an income tax checkoff for a private entity. If this measure is adopted, it may open the door to further similar checkoffs for other non government private entities.

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 also do not recognize 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. Furthermore, it is not fair to every other worthy cause that state revenues are being used to subsidize the fundraising efforts of this one.

Digested 3/10/14