

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

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: Wednesday, February 12, 2014
Time: 2:00 p.m.
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 1893 Relating to Taxation

Department of Taxation (Department) appreciates the intent of H.B. 1893, 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 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.

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 As the Legislature is aware, the Department has an outdated computer system with significant functionality issues.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.

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1893

February 12, 2014

RELATING TO TAXATION

House Bill No. 1893 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, 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.

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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: SB 2362; HB 1893 (Identical)

INTRODUCED BY: SB by Taniguchi; HB by Yamane, Aquino, Cullen, Kawakami, Nishimoto, Say, Souki, Takayama, Tokioka, Tsuji, Yamashita and 1 Democrat

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: 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. Lawmakers seem to view such checkoffs as absolution of their responsibility to deal with such problems by turning the response directly over to the taxpayer. However, in the long run, the cost of administering the checkoff merely siphons resources that should otherwise be used for providing needed public services.

If lawmakers believe that earmarking funds through a checkoff system is appropriate, then they might consider placing all programs on the state income tax form for designation and consider repealing the

legislative body as there will be no reason for the legislature to exist because decisions will have been made by the income taxpayer.

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 taxpayers are subsidizing the fundraising efforts of this one.

Digested 2/5/14

Testimony on HB 1893, Relating to Taxation

by

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

House Finance Committee
February 12, 2014, 2pm, Conference Room 308

Honorable Chair Sylvia Luke, Vice Chairs Scott Nishimoto and Aaron Johanson, and Members of the House Finance Committee,

I regret that I am on a business trip and unable to testify in person. However, I would like to express my strong support for HB 1893 on behalf of the American Red Cross, Hawaii State Chapter, whose mission 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. 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. HB 1893 will provide people a convenient way to support the Red Cross so that we can continue to serve the people of Hawaii.

STATE OF HAWAII
DEPARTMENT OF DEFENSE
CIVIL DEFENSE DIVISION

LATE

TESTIMONY ON HOUSE BILL 1893
RELATING TO TAXATION

PRESENTATION TO
THE HOUSE COMMITTEE ON FINANCE

BY

DOUG MAYNE
VICE DIRECTOR OF STATE CIVIL DEFENSE
February 12, 2014

Chair Luke, Vice Chairs Johanson and Nishimoto and Members of the House Committee on Finance.

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

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.

State Civil Defense strongly supports HB 1893. We strongly recommend adding a preamble section to the bill that contains the following language in order to avoid conflicts with Article VII, Section 4 of the Hawaii Constitution which prohibits using public moneys for private purposes.

“The legislature finds that the American Red Cross Hawaii State Chapter responds to numerous natural and man-made disasters and emergencies in Hawaii, provides assistance and shelter to large numbers of people each year, provides critical disaster preparedness information to thousands of people to help them be ready before disasters strike, and provides crisis and grief counseling and other assistance to many people each year; the legislature also finds that the American Red Cross Hawaii State Chapter performs government-like service by being designated by certain counties as the lead agency to plan and execute disaster sheltering operations; therefore, the legislature finds that the American Red Cross Hawaii State Chapter provides a public purpose in assisting the people of Hawaii in disaster response and supports the State of Hawaii in its role in emergency management.”

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