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STATE OF HAWAII
DEPARTMENT OF TAXATION
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JOSHUA WISCH
DEPUTY DIRECTOR

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

Date: Friday, March 28, 2014
Time: 9:15 a.m.
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. No. 2478, H.D. 1, S.D. 1, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 2478, H.D. 1, S.D. 1, to provide a tax credit for hiring an individual with a disability and provides the following comments and recommendations for your consideration.

H.B. 2478, H.D. 1, S.D. 1, creates an income tax credit against an employer's income tax liability equal to 50 per cent of qualified wages paid to a newly hired individual with a disability during the individual's first six months of employment. The bill also proposes to repeal the credit for employment of vocational rehabilitation referrals at section 235-55.91, HRS. The bill has a defective effective date of December 31, 2050.

The Department defers to the Department of Health on the merits of this bill, and offers the following comments and technical amendments to the bill.

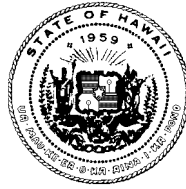
First, the Department notes that subsection (h) of the proposed credit disallows a deduction to the employer for the wages allowed as the base of the credit. The Department suggests subsection (h) of the bill be amended by removing "paid by a taxpayer" from the disallowance provision. This will maintain clarity in the bill as "wages" is a defined term and should stand on its own as defined, without the additional requirement of "paid by the taxpayer."

Additionally, the Department suggests that subsection (d) be amended to disqualify all wages paid to a non-qualified employee. This is consistent with general tax compliance policy that tax returns should only reflect information that is correct. Once information is discovered to be incorrect, all taxpayers have the duty to notify the Department by reporting the items correctly on initial filings, by amending returns, or by any other means that the Department allows.

Department of Taxation Testimony
WAM HB 2478 HD1 SD 1
March 28, 2014
Page 2 of 2

Subsection (d), as written, would prevent any amounts from being disqualified even if the Department found those amounts not to qualify for the credit.

Thank you for the opportunity to provide testimony.



STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES

P. O. Box 339
Honolulu, Hawaii 96809-0339

March 28, 2014

MEMORANDUM:

TO: The Honorable David Y. Ige, Chair
Senate Committee on Ways and Means

FROM: Patricia McManaman, Director

SUBJECT: **H.B. 2478, H.D.1, S.D.1 – RELATING TO TAXATION**

Hearing: Friday, March 28, 2014; 9:15 a.m.
Conference Room 211, State Capitol

PURPOSE: The purpose of this bill is to provide a taxpayer who hires an individual with a disability a nonrefundable tax credit for the six-month period after the individual is initially hired by the taxpayer; repeal existing tax credit for taxpayers who hire vocational rehabilitation referrals; and applies to taxable years beginning after December 31, 2050.

DEPARTMENT'S POSITION: The Division of Vocational Rehabilitation encourages initiatives that support the hiring of persons with disabilities. The Department of Labor and Industrial Relations has reported an unemployment rate of 4.5% as of December 2013. However, national data from the Bureau of Labor Statistics reported that individuals with disabilities within the working age (16 to 64), have a far higher unemployment rate when compared to non-disabled individuals within the same age group; 14.6% compared to 7.9%.

H.B. 2478, H.D.1, S.D.1, provides an incentive to employers to hire individuals with disabilities. Incentives such as this tax credit may provide an employer the motivation to provide a person with a disability an opportunity and a chance.

The DHS defers to the Department of Taxation on the feasibility of implementing this bill.

Thank you for this opportunity to submit testimony to this Committee.



STATE OF HAWAII
STATE COUNCIL
ON DEVELOPMENTAL DISABILITIES
919 ALA MOANA BOULEVARD, ROOM 113
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March 28, 2014

The Honorable David Y. Ige
Senate Committee on Ways and Means
Twenty-Seventh Legislature
State Capitol
State of Hawaii
Honolulu, Hawaii 96813

Dear Senator Ige and Members of the Committee:

SUBJECT: HB 2478 HD1 SD1 – RELATING TO TAXATION

The State Council on Developmental Disabilities **SUPPORTS HB 2478 HD1 SD1**. The bill provides a tax payer who hires an individual who has a disability a non-refundable tax credit for the six-month period the individual is initially hired by the tax payer.


Employment of individuals with intellectual and developmental disabilities (I/DD) is a means toward economic self-sufficiency, contributing to their communities as tax paying citizens, establishing relationships and social networking. Employment of people with I/DD is a priority for the Council and is reflected in our 2012-2016 State Plan Employment Goal that states “People with I/DD will have supports to obtain and sustain their chosen life goal to prepare students at all educational levels for the transition from high school to adult life, including employment, self-employment, and/or post-secondary education and training.”

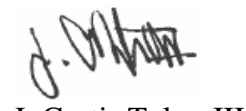
HB 2478 HD1 SD1 represents one component of providing employment opportunities of hiring people with disabilities. Another component includes educating and training private and public employers about accommodating people with disabilities in the workforce and the benefits of this. Both of these components combined would have a positive impact in increasing employment opportunities, as well as meeting the workforce demands of the private and public sectors.

The Council appreciates the Legislature’s initiative to provide incentives, such as tax credits for hiring people with disabilities.

Thank you for the opportunity to submit testimony **supporting HB 2478 HD1 SD1**.

Sincerely,


Waynette K.Y. Cabral, MSW
Executive Administrator


J. Curtis Tyler, III
Chair

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Credit for hiring an individual with a disability

BILL NUMBER: HB 2478, SD-1

INTRODUCED BY: Senate Committee on Human Services

EXECUTIVE SUMMARY: Establishes an income tax credit for the hiring of disabled individuals of 50% of the wages paid to such individual for the first six months. The adoption of this credit would provide tax relief to taxpayers regardless of their need for tax relief. It also may provide unintended tax relief (*i.e.*, leakage) because the criteria to qualify appears broad.

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow employers to claim an income tax credit for the hiring of an individual with a disability equal to 50% of the qualified wages for the first six months after the individual is hired.

Tax credits that exceed the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted. In no taxable year shall the total amount of tax credits claimed under this section exceed \$ _____.

Defines "individual with a disability" as having a physical or intellectual impairment that substantially limits one or more major life activities, having a record of that impairment, or being regarded as having that impairment provided that the disabling impairment is certified by a qualified physician.

Delineates provisions relating to the application and certification of the credit. Also specifies which wages are ineligible for the credit. Provides that no deduction shall be allowed for wages paid by a taxpayer in the same taxable year a credit is claimed under this section.

Requires the director of taxation to prepare any forms necessary to claim a credit, may require a taxpayer to furnish reasonable information in order to validate a claim for the credit, and adopt rules pursuant to HRS chapter 91. Requires claims for the credit, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit is claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

Repeals HRS section 235-55.91 that provides a tax credit for the hiring of vocational rehabilitation referrals.

EFFECTIVE DATE: Tax years beginning after December 31, 2050

STAFF COMMENTS: This measure is proposed as an incentive to entice employers to hire an individual who is physically or intellectually disabled, but the tax system is a poor means of achieving such social goals. Providing such credits against the state income tax merely reduces state revenues, and

if the size of government does not go down, then the tax burden shifts to other taxpayers who are not able to claim the credit.

As the House Committee on Human Services noted, there may be a technical issue with the bill as it may allow an employer to terminate and then rehiring the same worker to restart the six-month credit period in order to receive the tax credit.

In addition, the employee becomes credit eligible upon receiving a doctor's certification of a disability, defined as a "physical or intellectual impairment that substantially limits one or more major life activities." Those criteria would appear to allow qualification of a temporary impairment, such as someone who has a back strain and has to stay in bed for a couple of days.

While the measure is similar to the income tax credit for the hiring of vocational rehabilitation referrals, which this measure repeals, if it is the intent of the legislature to encourage the hiring of individuals with a disability, it would be preferable to amend HRS-235-55.91 to include these individuals rather than to adopt a new credit which may have technical issues.

Digested 3/27/14