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

Date: Wednesday, January 29, 2014
Time: 9:00 a.m.
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. No. 2153 Relating to Government Accountability

The Department of Taxation (Department) appreciates the intent of the S.B. 2153, but is not able to comply with the requirements set forth in the bill.

S.B. 2153 requires the Department to submit to the Legislature an annual report in odd-numbered years, on all "tax expenditures." S.B. 2153 defines "tax expenditure" as "a credit, deduction, exclusion, exemption, or any other tax benefit provided under state law." S.B. 2153 also requires legislation establishing new tax expenditures to include certain specified provisions. S.B.2153, if adopted, will take effect on July 1, 2014.

The Department administers fourteen types of taxes (Income, Estate and Transfer, Estate and Generation-Skipping Transfer, General Excise, Transient Accommodation, Use, Public Service Company, Public Utilities, Franchise, Taxation of Banks and Other Financial Corporations, Fuel, Liquor, Cigarette and Tobacco, Conveyance, and Rental Motor Vehicle and Tour Vehicle Surcharge Taxes). Much of the information to be reported pursuant to S.B. 2153 is not currently captured by the current computer system. It would take a significant amount of resources to implement all the changes to the current tax forms and computer system to capture, analyze, and produce the data on all credits, deductions, exclusions, exemptions and all other tax benefits provided in Title 14, as required under S.B. 2153.

The Department would also like better data collection reporting from our computer system. However, due to the extensive amount of work required to increase the reporting capabilities and the significant amount of resources that would need to be allocated to the effort, the Department believes it would be more efficient and effective to focus on identifying and developing the data reporting functionality for the Tax System Modernization (TSM) project.

For example, as part of the TSM project, the Department expects to be updating most tax forms with an intent to generate better data reports.

In general, the Department supports requiring a sunset provision for new or expanded tax expenditures; an extension of the sunset date for an existing expenditure; a recapture provision if a taxpayer fails to meet requirements that are necessary to qualify for the new tax benefit; and measurable goals or objectives.

Thank you for the opportunity to provide comments.

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SUBJECT: ADMINISTRATION, Report on tax expenditures

BILL NUMBER: SB 2153

INTRODUCED BY: Slom

BRIEF SUMMARY: Adds a new section to HRS chapter 231 to require the department of taxation to submit a report on all tax expenditures currently in effect on or before September 15 in each odd-numbered year. Defines “tax expenditure” as any credit, deduction, exclusion, exemption, or any other tax benefit provided under state law.

Delineates what each report shall contain including: (1) a detailed description of each tax expenditure; (2) the statutory authority for each tax expenditure; (3) the purpose and original intent of each tax expenditure; (4) the actual revenue loss for the most recent fiscal year for each tax expenditure, or an estimate if the actual amount cannot be determined; and (5) whether each tax expenditure has successfully achieved the intended purpose for which the tax expenditure was enacted.

Requires any legislation establishing new or expanded tax expenditures or extending the sunset date for an existing tax expenditure to include: (1) a sunset provision; (2) a requirement for an evaluation or study that may also include requirements for the submission of information by taxpayers benefitting from a tax expenditure; (3) recapture provisions; and (4) measurable goals or objectives.

EFFECTIVE DATE: July 1, 2014

STAFF COMMENTS: The proposed measure would require the department of taxation to collect information from any tax credit, deduction, exclusion, exemption, or any other tax benefit provided under state law and submit a report to the legislature in each odd-number year.

This would entail constructing a database of detailed information along with their results, and it is questionable whether the department of taxation has the resources and staff to undertake such a project. Given that these tax credits, tax exclusions, and tax exemptions are a back door expenditure of public dollars, the granting of these preferences should be subjected to the same scrutiny to which appropriation and expenditure of tax dollars are subjected. How can policymakers justify the establishment of such tax incentives when there is no means by which to measure the costs (revenue loss) and the benefits (such as jobs, economic stimulation, or growth in the industry)? Although it will take resources, at the very least, the tax department should begin to collect this data as these preferences have a substantial impact on the revenue base and tax collections.

If this data collection requires more data collection from beneficiaries, so be it. Beneficiaries now feeding on public dollars through these tax incentives should have no valid concerns about revealing how those dollars were used and how those dollars benefitted the taxpaying public. The analogy is something akin to having to put the quarter in the juke box if one wants to dance.

During the late 1970's when money was also tight, the department of budget and finance used to publish a listing of all exemptions but placed no dollar figure on each as they were not in the position to collect that information. The department of taxation, on the other hand, already does collect some data about tax credits and publishes that information. However, with the help of technology, the department should be able to collect data such as exemptions from the general excise tax as that is specific information that the claimant must file on his or her return. Exclusions may be a bit more difficult to capture as that is not a number that may be required to be listed as it is an exclusion of a certain type of income, such as pensions. However, that data probably could be collected from federal data for Hawaii.

Regardless, the taxpayers deserve to know how much is being provided in tax incentives especially where there is no apparent evidence that the claiming taxpayer needs relief from an undue burden. Many of these tax incentives are targeted business tax incentives while others intend to get taxpayers to act in a particular manner, irrespective of the tax burden of the claimant.

While the proposed measure would require the submission of a report every other year and an annual report would provide more timely information, in any event, sufficient resources should be allocated to the department of taxation to complete this task.

Digested 1/24/14