

# SB 174

RELATING TO PUBLIC TRANSPORTATION  
INCENTIVES.

Establishes an income tax credit for taxpayers who purchase bus passes or passes for a public transportation program.

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To: The Honorable Clarence K. Nishihara, Chair  
and Members of the Senate Committee on Transportation

Date: Tuesday, February 10, 2015  
Time: 2:45 P.M.  
Place: Conference Room 229, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: S.B. 174, Relating to Public Transportation Incentives

The Department of Taxation (Department) appreciates the intent of S.B. 174, to support the use of public transportation and provides the following comments for your consideration.

S.B. 174 creates a nonrefundable income tax credit with an unspecified cap for the amount that a taxpayer spends on monthly or annual public transportation passes.

The Department first notes that the State conforms to Internal Revenue Code (IRC) section 132(f), which provides for qualified transportation expenses as a fringe benefit. IRC section 132(f) allows an employee to use pre-tax dollars for the purchase of a public transit passes or vanpooling expenses. Alternatively, employers may provide such benefits without such benefits becoming taxable income to the employee. For 2015, the monthly limit on the amount that may be excluded from an employee's income for transit passes and vanpooling expenses is \$130, the same as it was in 2014. Additionally, under IRC section 132(f), an employee may alternatively use pre-tax dollars to pay for vehicle parking expenses (or the employer may pay for such parking expenses without such benefit becoming taxable income to the employee) up to a maximum of \$250 monthly.

The Department notes that this measure does not prevent employees from obtaining both the benefits under IRC section 132(f) and the benefits under this measure. Nothing in this measure prevents, for example, an employee from continuing to have parking paid for as a non-taxable fringe benefit and also obtaining a credit for a bus pass under this measure. There is no requirement that the taxpayer actually use such bus pass, and there is no way in which the Department could prevent the taxpayer from selling or giving away the pass to another person.

The Department suggests that the provision allowing employers to take the credit either be deleted or set at a significantly lower credit amount than the individual amount because employers can already deduct the amount paid for employee transportation as a deductible expense. This is true even though such amounts will not be taxable income to the employee since it is a non-taxable fringe benefit.

Thank you for the opportunity to provide comments.

# TAXBILLSERVICE

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**SUBJECT:** INCOME, Public transportation incentives

**BILL NUMBER:** SB 174; HB 674 (Identical)

**INTRODUCED BY:** SB by Dela Cruz; HB by Har, Cullen, Ito, Oshiro, Say

**BRIEF SUMMARY:** Adds a new section to HRS chapter 235 to allow taxpayers to claim an income tax credit equal to the amount spent by the taxpayer to purchase public transportation passes during the taxable year; provided that the total amount of any tax credit allowed under this section shall not exceed: (1) \$ \_\_\_\_ per individual taxpayer; or (2) \$ \_\_\_\_ per participating employee if the taxpayer purchases the public transportation passes for use by the taxpayer's employees.

Defines "public transportation passes" as: (1) monthly or annual bus passes; or (2) monthly or annual passes for a public transportation program operated or contracted by the state or a county.

Credits in excess of a taxpayer's income tax liability may be applied to subsequent income tax liability until exhausted. Requires all claims for the credit to be filed on or before the end of the twelfth month following the close of the taxable year. The director of taxation may adopt rules pursuant to HRS chapter 91 and prepare the necessary forms to claim the credit and may require proof of the claim for the credit.

**EFFECTIVE DATE:** Tax years beginning after December 31, 2015

**STAFF COMMENTS:** It appears that this measure is intended to provide an incentive in the form of an income tax credit to encourage taxpayers to utilize public transportation by purchasing bus passes. Tax credits generally are designed to reduce the tax burdens of certain groups by refunding a portion of taxes paid on purchases of essential items and services. This credit would be granted to anyone regardless of their income level and would amount to nothing more than a partial subsidy of state funds as there is no obvious undue burden of taxes.

While the measure would also allow an employer to claim a tax credit for state income tax purposes, it should be remembered that under section 132 of the Internal Revenue Code (IRC), which is operable for Hawaii income tax purposes, this provision would allow multiple tax benefits. IRC section 132 would allow an employer to provide transit benefits tax free as a fringe benefit to its employees up to \$130 per month in 2015.

If it is the intent of the legislature to subsidize the use of public transportation, then a direct subsidy to the transportation providers should be considered in lieu of the proposed tax credit for individual taxpayers which may be cumbersome and unwieldy to claim by taxpayers and burdensome to administer and verify by the department of taxation.

Digested 2/6/15



**SENATE COMMITTEE ON TRANSPORTATION**

February 10, 2015, 2:45 P.M., Room 229

(Testimony is 1 page long)

**TESTIMONY IN SUPPORT OF SB 174**

Chair Nishihara and members of the Transportation Committee:

Blue Planet Foundation supports the stated goals of SB 174, which are to increase public transportation ridership and reduce household transportation costs, particularly for lower income households. However, we do have some comments on the bill.

Research indicates that public transit is a relatively inelastic good, meaning that small changes in price typically have little impact on ridership; and that the quality of service (geographic coverage, frequency, travel speeds, and comfort) has a much larger impact on ridership than price. In other words, the reason more people don't ride public transit is generally because the service isn't good enough or convenient enough for them, rather than because the price is too high.

High quality public transportation is an essential element for every community in the state, just as parks, schools, sewers and roadways are. Unfortunately, unlike parks, schools, sewers and roadways, which are either built by developers directly or paid for through impact fees as part of the entitlement process; public transportation has no dedicated stream of funding for infrastructure and must rely on subsidies from property taxes.

Blue Planet Foundation encourages the legislature to identify dedicated, permanent streams of funding to increase and improve public transportation service throughout the State of Hawaii.

Thank you for the opportunity to testify.

**From:** [mailinglist@capitol.hawaii.gov](mailto:mailinglist@capitol.hawaii.gov)  
**To:** [TRA Testimony](#)  
**Cc:** [thelastmcdon@hotmail.com](mailto:thelastmcdon@hotmail.com)  
**Subject:** Submitted testimony for SB174 on Feb 10, 2015 14:45PM  
**Date:** Wednesday, February 04, 2015 7:07:57 AM

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**SB174**

Submitted on: 2/4/2015

Testimony for TRA on Feb 10, 2015 14:45PM in Conference Room 229

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
craig m	Individual	Oppose	No

Comments: The hindrance to increasing ridership is not money, but time. Often times The Bus is caught in traffic like everyone else. Our biggest challenge to traffic is a lack of understanding of driving rules and driver confidence. This is just another attempt of the "entitled" trying to get others to pay their living expenses. Life is not free.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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