

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 247

February 11, 2015

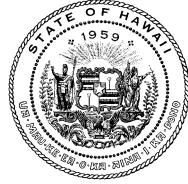
RELATING TO BUDGET DOCUMENTS

Senate Bill No. 247 proposes to amend Chapter 37, Budget, of the HRS, to require inclusion of tax expenditure information in the budget documents. The bill also appropriates \$50,000 of general funds in FY 16 and FY 17 to the Department of Taxation (TAX) for the preparation of the tax expenditure information.

We understand that TAX, because of staffing and technical and data collection issues, may have difficulty in providing the required information. We defer to TAX on the practicality of being able to meet the requirements of this bill.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

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

To: The Honorable Jill N. Tokuda, Chair
and Members of the Senate Committee on Ways and Means

Date: Wednesday, February 11, 2015
Time: 9:05 A.M.
Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 247, Relating to Budget Documents

The Department of Taxation (Department) appreciates the intent of S.B. 247 and offers the following comments.

S.B. 247 requires the six-year program and financial plan and budget to include information on tax expenditures, and provides an appropriation to the Department to prepare the tax expenditure information required under this measure. S.B. 247, if adopted, will take effect on July 1, 2016, provided that the appropriation to the Department will take effect on July 1, 2015.

Section 2 of S.B. 247 defines "tax expenditure" as "the amount of revenue lost due to tax credits, exemptions, deductions, and abatements. The term does not include the amounts lost due to compromises, settlements, or closing agreements". Section 3 of S.B. 247 requires the six-year financial plan to include general fund tax revenues by kinds of taxes, the amount of tax expenditures made in the last completed fiscal year and estimated to be made in the fiscal year in progress and in each of the next six fiscal years.

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). Currently, the Department produces an annual report on Tax Credits Claimed by Hawaii Taxpayers which is made available on the Department's website.

Because taxpayers are not required to file their tax returns until after the close of their taxable year, the Department does not have data to report on "...the amount of tax expenditures made in the last completed fiscal year and estimated to be made in the fiscal year..." Moreover, most net income taxpayers file on a calendar, not fiscal, year basis.

In general, the Department does not receive and process all tax returns for a taxable year until approximately 15 months **after** the close of the taxable year. Furthermore, much of the information required under S.B. 247 is not electronically captured by the current computer system. It would take a significant amount of resources to manually aggregate the data, or in the alternative, to implement all the changes to the current tax forms and the current computer system to capture, analyze, and produce the data.

Overall, 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 of the Tax System Modernization (TSM) project. As part of the TSM project, the Department expects to update all of its tax forms with an intent to gather better data and increase our reporting capabilities.

Thank you for the opportunity to provide comments.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Tax expenditures

BILL NUMBER: SB 247

INTRODUCED BY: Tokuda, English, Keith-Agaran, Kouchi

BRIEF SUMMARY: Amends HRS section 37-69 to require the six-year program and financial plan and budget to include the amount of tax expenditures made in the last completed fiscal year and estimated to be made in the current fiscal year, and in each of the next six fiscal years. Defines “tax expenditures” as tax credits, exemptions, deductions, and abatements, exclusive of amounts lost to compromises, settlements or closing agreements.

Appropriates \$50,000 in general revenues in fiscal 2016 and fiscal 2017 to the department of taxation for the preparation of the tax expenditure information required to be reported in the six-year program and financial plan and budget by this act. The appropriation takes effect on July 1, 2015.

EFFECTIVE DATE: July 1, 2016

STAFF COMMENTS: The proposed measure would require the department of taxation to prepare tax expenditures for inclusion in the state’s six-year program and financial plan and budget for the previous fiscal year, the current fiscal year and the next six fiscal years.

This would entail constructing a database of detailed information along with their results. 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.

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, such as those for gifts, may be a bit more difficult to capture as that is not a number that is now required to be reported, but that can change if the legislature considers it important enough. Or, data on Hawaii-specific exclusions, such as the exclusion for pensions, probably could be collected from federal data for Hawaii.

Digested 2/10/15