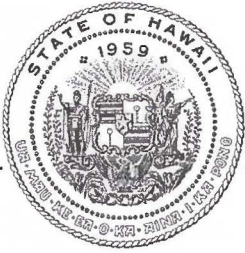


# SB 3012

Measure Title: RELATING TO CORPORATE INCOME TAX.

Report Title: Corporate Income Tax; Department of Business, Economic Development, and Tourism; DBEDT

Description: Reduces the corporate income tax rate by fifty per cent.  
Allocates fifty per cent of corporate income tax revenues to DBEDT and fifty per cent to the general fund.



**DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM**

DAVID Y. IGE  
GOVERNOR

LUIS P. SALAVERIA  
DIRECTOR

MARY ALICE EVANS  
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813  
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804  
Web site: dbedt.hawaii.govt

Telephone: (808) 586-2355  
Fax: (808) 586-2377

Statement of  
**Luis P. Salaveria**

Director

Department of Business, Economic Development and Tourism  
before the

**Senate Committee on Economic Development, Environment and Technology**

February 5, 2016

1:15 PM

State Capitol, Conference Room 414

In consideration of

**SB3012**

**RELATING TO THE CORPORATE INCOME TAX.**

Chair Wakai, Vice Chair Slom and members of the Senate Committee on Economic Development, Environment and Technology.

DBEDT supports the intent of SB3012, a bill that reduces the Corporate Income Tax, as the bill recognizes the need to take steps to generate more economic growth and to provide additional resources to DBEDT to support economic development in the State. However, DBEDT prefers SB2817, an Administration measure.

SB2817 proposes to utilize resources from the Corporate Income Tax to support a targeted effort to attract talent and capital to Hawaii's growth sectors through the successful HI Growth Initiative. DBEDT supports SB2817 as an efficient means to increase business activity and generate economic growth without sacrificing a significant source of revenue.

Thank you for the opportunity to submit testimony.

DAVID Y. IGE  
GOVERNOR

SHANTSUTSUI  
LT. GOVERNOR



MARIA E. ZIELINSKI  
DIRECTOR OF TAXATION

JOSEPH K. KIM  
DEPUTY DIRECTOR

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 Glenn Wakai, Chair  
and Members of the Senate Committee on Economic Development, Environment, and  
Technology

Date: February 5, 2016  
Time: 1:15P.M.  
Place: Conference Room 414, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: S.B. 3012, Relating to Corporate Income Tax.

The Department of Taxation (Department) offers the following comments regarding S.B. 3012 for your consideration.

S.B. 3012 amends section 235-71, Hawaii Revised Statute (HRS), by lowering the income tax rate for (1) corporations, (2) regulated investment companies, and (3) real estate investment trusts as follows:

Taxable Income	Current Tax Rates	Proposed Tax Rates
Not over \$25,000	4.4%	2.2%
Over \$25,000 but not over \$100,000	5.4%	2.7%
Over \$100,000	6.4%	3.2%

S.B. 3012 also amends the income tax rate from 0.5% to 0.25% of the annual gross sales for any corporation acting as a business entity in more than one state and which is required to file an income tax return, whose only activities in the State consist of sales, does not own or rent real estate or tangible personal property, with annual gross sales in or into the State during the tax year not exceeding \$100,000.

S.B. 3012 also directs the revenue collected under section 235-71, HRS, beginning January 1, 2017, to be distributed evenly to: (1) the operating budget of the Department of Business, Economic Development, and Tourism, and (2) the general fund.

S.B. 3012 currently has an effective date of July 1, 2016. The Department requests that Section 1 of S.B. 3012 apply to taxable years no earlier than taxable years beginning after December 31, 2016 to provide the Department with sufficient time to implement the form and instruction changes proposed in this measure.

Thank you for the opportunity to provide comments.



**Testimony to the Senate Committee on Economic Development, Environment  
and Technology  
Friday, February 5, 2016 at 1:15 P.M.  
Conference Room 414, State Capitol**

**RE: SENATE BILL 3012 RELATING TO CORPORATE INCOME TAX**

Chair Wakai, Vice Chair Slom, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") supports SB 3012, which reduces the corporate income tax rate by fifty per cent and allocates fifty per cent of corporate income tax revenues to DBEDT and fifty per cent to the general fund.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber supports this reduction of the tax as it would help alleviate some of the costs of doing business in Hawaii. The cut would help many of Hawaii's small businesses retain their profit and reinvest into the local economy. We also support the fifty per cent appropriation to DBEDT as an agency that helps support Hawaii's businesses. At the same time, we want to ensure that there is enough funding for government programs and that this will not create a shortfall and the need for increased taxes elsewhere.

Thank you for the opportunity to testify.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Reduction in Corporate Tax

BILL NUMBER: SB 3012

INTRODUCED BY: WAKAI, CHUN OAKLAND, INOUE, Kidani, Shimabukuro, Slom

EXECUTIVE SUMMARY: Reduces the corporate income tax rate by fifty per cent. Allocates fifty per cent of corporate income tax revenues to DBEDT and fifty per cent to the general fund.

BRIEF SUMMARY: Amends HRS section 235-71, so that the corporate tax rates are reduced to one half of what they now are. Reduces the rate to 2.2% from 4.4% for taxable income up to \$25,000; to 2.7% from 5.4% for taxable income up to \$100,000; and to 3.2% from 6.4% for taxable income over \$100,000. Adds a new subsection to HRS section 235-71 providing that half of the corporate tax revenue collected shall be allocated to the operating budget of the Department of Business, Economic Development and Tourism (DBEDT), and the other half shall be deposited to the general fund.

EFFECTIVE DATE: July 1, 2016.

STAFF COMMENTS: Income taxes paid by corporations, although significant, constitute a relatively minor part of the State's revenues. According to the Department of Taxation's 2014-2015 annual report, a little over \$87 million in such taxes was paid in the fiscal year ending June 30, 2014, which precipitously dropped to \$52 million in the fiscal year ending June 30, 2015. In contrast, the individual income tax (which is applied to individuals in many small businesses, including sole proprietors, single-member LLCs with an individual owner, S corporations, and partnerships with individual partners) brought in \$1.75 billion in fiscal 2014 and \$1.99 billion in fiscal 2015. Clearly, fewer and fewer of our businesses are being conducted in corporate form.

As a result, the proposed corporate income tax changes probably will not have significant revenue impact and, by the same token, probably will not have a significant impact upon Hawaii's business climate or economy.

That part of the bill earmarking half of the corporate tax revenue to DBEDT is more problematic. First, it is unlikely to work. DBEDT's operating budget coming from general funds is about \$10 million a year, and it would be very easy for those who decide upon budgeting to simply cut off any general fund appropriations so DBEDT could live on the \$12 million or so that would be diverted from the corporate tax. (A similar fate happened to the Department of Hawaiian Home Lands; the budgeters figured it had enough money coming from lease revenues, so DHHL was given no general funding at all for fiscal years 2010, 2011, 2012, and 2013.) And if the corporate tax collections were to drop, for example as in this past fiscal year, then the agency's operations would be in trouble.

Second, earmarking tax revenues means approving an “automatic funding” mechanism for each of the programs into which the corporate tax revenues are funneled. Through this system, monies are diverted without any legislative intervention, expenses largely avoid legislative scrutiny, and it will be difficult for the public or the legislature to ascertain the effectiveness of the programs funded.

If the legislature deems the programs and purposes of DBEDT to be a high priority, then it should maintain the accountability for these funds by appropriating the funds as it does with other programs. DBEDT should be appearing before the legislature each year to justify its existence and activities, just like any other state government agency, at which time legislators can evaluate the real or actual needs of each particular program and decide on the fiscal priorities for our state. Earmarking revenues merely absolves elected officials from setting priorities.

Digested 1/31/2016



AMERICANS FOR DEMOCRATIC ACTION

OFFICERS	DIRECTORS			MAILING ADDRESS
John Bickel, President	Guy Archer	Chuck Huxel	George Simson	PO. Box 23404
Marsha Schweitzer, Treasurer	Stanley Chang	Jan Lubin	Emmanuel Zibakalam	Honolulu
Karin Gill, Secretary	Josh Frost	Jenny Nomura		Hawai'i 96823
	Fritz Fritschel	Stephen O'Harrow		

Feb. 1, 2016

TO: Honorable Chair Wakai and Members of the Senate EET Committee

RE: SB 3012 Relating to Corporate Income Tax  
Opposition

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We oppose SB 3012 as it would cut taxes for corporations. In an age when income inequality is a major concern, we should be raising taxes on the wealthy not reducing them. Under this bill corporations that earn over \$100,000 would see their tax rate drop from 6.4 percent to 3.2 percent. According to Hawaii Appleseed we are taxing our poorest fifth of the population at an effective rate of 14 percent. How can we in good conscience therefore drop the tax rate for corporations making over \$100,000 a year?

Thank you for your consideration.

Sincerely,

John Bickel  
President

wakai1 - Lilinoe

---

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Wednesday, February 03, 2016 2:52 PM  
**To:** EET Testimony  
**Cc:** barbarapolk@hawaiiantel.net  
**Subject:** Submitted testimony for SB3012 on Feb 5, 2016 13:15PM

**SB3012**

Submitted on: 2/3/2016

Testimony for EET on Feb 5, 2016 13:15PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
Barbara Polk	Individual	Oppose	No

Comments: I strongly oppose SB3012 and can only think that its introducer has not looked at the impact on the State budget of cutting taxes on corporations in half. Where will money come from to renovate or build low income housing, as well as sustain services on which the welfare of our community depends? In addition to cutting the tax rate for corporations, this bill also cuts in half the amount that will go into the state's general fund, further cutting into the state's general budget. Please DO NOT pass this terrible bill.

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.

Do not reply to this email. This inbox is not monitored. For assistance please email [webmaster@capitol.hawaii.gov](mailto:webmaster@capitol.hawaii.gov)