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To: The Honorable Gilbert S.C. Keith-Agaran, Chair  
and Members of the Senate Committee on Judiciary and Labor

Date: Tuesday, February 3, 2015  
Time: 9:00 A.M.  
Place: Conference Room 016, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: S.B. 696, Relating to Income Tax Credits

The Department of Taxation (Department) appreciates the intent of S.B. 696 and provides the following information and comments.

S.B. 696 creates an income tax credit for employers who incur telecommute expenses during the 2015 and 2016 calendar years. The bill requires the Department to tentatively approve the tax credit in the year preceding the taxable year for which the tax credit is to be claimed.

First, the Department notes that it does not have the resources or the expertise to properly enforce compliance of this credit. Proper compliance would require the Department to monitor the employers and their telecommuting employees in great detail. Absent the ability to closely monitor both the employers and employees, the Department will need to rely on the taxpayer for voluntary compliance.

Second, the Department has serious concerns regarding the "tentative approvals" and the in subsection (d). "Tentative approvals" have caused tax administration problems in the past because taxpayers often believe that a "tentative approval" means that the Department has approved the credit and that no subsequent rejection or adjustment to the tax credit can be made by the Department. The Department will also not be able to meet the short timeframe provided to complete these "tentative approvals".

Third, the Department has serious concerns regarding the aggregate caps in subsection (d). In the past, aggregate caps have caused taxpayer confusion and has been difficult for the Department to administer. The aggregate cap provisions also do not seem to address the fact that

business taxpayers have different taxable years. The Department requests that the aggregate caps be deleted from this measure.

Finally, if S.B. 696 is adopted, it would require the Department to create new forms and make changes to its computer system. As the Legislature is aware, the Department has an outdated computer system with significant functionality issues. Staffing resources, which are necessary to develop and implement modifications to the system, are also insufficient. As a result, the Department's limited resources must be prioritized to address other significant projects that will occur over the next few years. Therefore, the Department requests that, if S.B. 696 is adopted, the effective date is extended to taxable years beginning after December 31, 2015.

Thank you for the opportunity to provide comments.