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To: The Honorable Justin H. Woodson
and Members of the House Committee on Education

Date: Wednesday, February 7, 2018
Time: 2:10 P.M.
Place: Conference Room 309, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 1720, Relating to Taxation

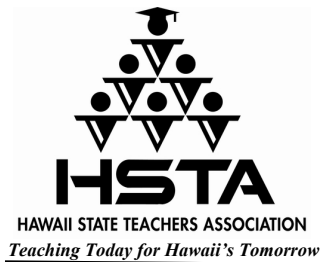
The Department of Taxation (Department) offers the following comments on H.B. 1720 for the Committee's consideration.

H.B. 1720 creates a deduction from gross income for amounts paid by teachers for professional development courses and books, computer equipment and other supplies used in the classroom. This bill also raises the tax imposed on banks and other financial corporations by one percent. H.B. 1720 is effective upon approval and applies to taxable years beginning after December 31, 2017.

First, the Department appreciates the intent of the deduction for amounts paid by teachers, but notes that it lacks subject matter expertise necessary to effectively determine whether amounts claimed by taxpayers are in fact for professional development courses or school supplies. The Committee may want to consider amending the bill to require taxpayers claiming the deduction to secure a Certification of their expenses from the school or schools at which the classroom supplies are used or which employs the teacher who took the professional development course. The Department is able to administer this new tax deduction for taxable years beginning after December 31, 2017.

Second, the Department notes that banks and other financial institutions (taxpayers subject to Hawaii Revised Statutes chapter 241) whose tax liability exceeds \$100,000 in a year is required to pay the tax in 12 monthly installments. By applying the increased rate to taxable years beginning after December 31, 2017, these taxpayers will be underpaid on their required monthly installments as the measure would have the effect of a retroactive rate increase. The Department suggests making this rate increase applicable to taxable years beginning after December 31, 2018.

Thank you for the opportunity to provide comments.



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TESTIMONY BEFORE THE HOUSE COMMITTEE ON
EDUCATION

RE: HB 1720 - RELATING TO TAXATION

WEDNESDAY, FEBRUARY 7, 2018

COREY ROSENLEE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Woodson and Members of the Committee:

The Hawaii State Teachers Association **supports HB 1720**, relating to taxation.

If passed, this bill will allow teachers to deduct a state income tax credit for classroom expenses and educational travel costs paid by a teacher during a taxable year. In short, this will offset the cost of supplies purchased by teachers using personal funds, expenses that are beyond what is allocated in academic and financial plans and that far exceed the \$250 federal educator expense deduction.

With the nation's lowest cost of living adjusted salaries, increased healthcare costs, and the elimination of \$1,690 in special education supply funds in 2011, teachers have to dig deep into their pockets to deliver their lessons. In the case of classroom supplies, it's true that teachers "do it for the kids," purchasing materials out of their own paychecks. Waiting for departmental or purchase order approval would often disrupt planned curricula and, in turn, student learning. Teachers won't abide that.

Previous HSTA surveys have found that a jarring 47 percent of teachers are spending between \$250 and \$500 per year on materials, with many spending \$1,000 or more. That's \$250 to \$1,000 that would be spent on family needs, food, bills, and other personal expenses in a fully-funded school system. Notably, most teachers do not earn enough to claim the benefits of tax itemization—they cannot, for example, take mortgage deductions for homes that they cannot afford to buy.

Teachers should be repaid for personally purchasing school supplies. Accordingly, the Hawaii State Teachers Association asks your committee to **support** this bill.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

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SUBJECT: INCOME, FRANCHISE, Deduction for teacher supplies and tax hike for financial institutions

BILL NUMBER: HB 1720

INTRODUCED BY: ING, CREAGAN, GATES, KEOHOKALOLE, KONG, WOODSON

EXECUTIVE SUMMARY: Allows for a state income tax deduction for teacher supplies purchased related to the classroom. Increases the franchise tax on banks and other financial corporations.

SYNOPSIS: Adds a new section to chapter 235, HRS, to allow a deduction for amounts paid by a teacher for (1) professional development courses related to the curriculum in which the teacher provides instruction; and (2) books, supplies, computer equipment, software, and supplementary materials used by the teacher in the classroom. Limits the deduction at \$_____.

Defines “teacher” as an individual taxpayer whose duties in the public or private educational system are primarily teaching or instruction of students or related activities centered primarily on students and who is in close and continuous contact with students, and shall include but not be limited to classroom teachers, school librarians, counselors, registrars, and special education teachers.

Amends section 241-4, HRS, to increase the franchise tax rate on banks and other financial institutions from 7.92% to 8.92%.

EFFECTIVE DATE: Taxable years beginning after December 31, 2017.

STAFF COMMENTS: This bill proposes two dissimilar ideas, giving teachers a deduction for supplies and professional development courses and increasing the tax rate on banks and financial institutions. The only common thread is that they both relate to taxation; the bill is called “Relating to Taxation” to satisfy the constitutional single-subject rule. The only reason we can think of for combining such wildly different ideas into one bill is to try to hide one or the other.

We have concerns about the tax hike.

The franchise tax, HRS chapter 241, was enacted in 1957, at a time when federal banking law permitted only certain kinds of state taxes to be levied upon banks and other federally regulated financial institutions. It is imposed in lieu of net income tax and general excise tax, and the current rate of taxation, 7.92%, was set in Act 106, SLH 1992, to be revenue neutral when compared with the exemptions from net income and general excise taxes. See Stand Comm. Rep. No. 772 (1992) (FIN); Stand. Comm. Rep. No. 234 (1992) (CPC); Testimony of Department of Taxation on H.B. No. 3163 (Feb. 7, 1992).

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Given that there has been no change in either the net income or general excise taxes applicable to banks or other financial institutions, what is the justification for increasing the franchise tax? This seems to be a pure money grab, which is not what our state economy needs now.

Digested 2/2/2018

Presentation To The
Committee on Education
February 7, 2018 at 2:10 PM
State Capitol Conference Room 309

Testimony in Opposition to House Bill 1720

TO: The Honorable Justin H. Woodson, Chair
The Honorable Sam Satoru Kong, Vice Chair
Members of the Committee

My name is Neal K. Okabayashi, the Executive Director of the Hawaii Bankers Association (HBA). HBA is the trade association representing banks with branches in Hawaii.

The Hawaii Bankers Association opposes section 2 of House Bill 1720.

We are surprised that some local financial companies (banks, financial services loan companies, and mortgage loan originator companies – which includes sole proprietors) are the only industry group targeted for a 12.6% tax increase.

Banks are essential to the economic health of Hawaii because they provide the fuel for economic growth – as in loans. The Hawaii banks receive the monies to fund the loans and provide required capital support for the loans, substantially from the monies the Hawaii banks make, and increasing the tax by 12.6% only serves to diminish the funds available to help pay for and support economic growth.

It should be remembered that Hawaii banks were the first industry group to increase their wage for employees to a minimum of either \$15.25 or \$15.00 an hour, for 2018. A review of the various minimum wage bills shows no bill proposing an increase to \$15.00 an hour in 2018. Thus, the Hawaii banks are, in the words of the old Panasonic slogan: “slightly ahead of our time.”

Hawaii banks are also very active in charitable gifts and community service. Each year, the local financial industry donates millions of dollars to support Hawaii’s non-profit organizations and its members are consistently recognized among Hawaii’s Best Places to Work. Additionally, thousands of volunteer hours are donated by bank employees to help provide support to a wide variety of community groups.

Given the important role Hawaii's banks play within the state economy, their significant level of contributions, and an already substantive tax rate, we believe an increase is not warranted.

Thank you for the opportunity to submit this testimony on HB 1720 and please let us know if we can provide further information.

Neal K. Okabayashi
(808) 524-5161

HB-1720

Submitted on: 2/3/2018 2:45:28 PM

Testimony for EDN on 2/7/2018 2:10:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Shane Albritton		Support	No

Comments: