



**STATE OF HAWAII
DEPARTMENT OF TAXATION**

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To: The Honorable Gregg Takayama, Chair
and Members of the House Committee on Public Safety

Date: Thursday, February 8, 2018
Time: 10:00 A.M.
Place: Conference Room 312, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 2239, Relating to Taxation

The Department of Taxation (Department) offers the following comments on H.B. 2239 for the Committee's consideration.

H.B. 2239 establishes a nonrefundable income tax credit for the purchase of emergency preparedness supplies. A summary of key provisions follows:

- Adds a new section to Hawaii Revised Statutes (HRS) chapter 235, creating a nonrefundable income tax credit for the purchase of emergency preparedness supplies;
- Sets the amount of the credit equal to 100% of the taxpayer's qualified expenses up to a maximum of \$1,000;
- Defines "qualified expenses" as the costs directly incurred by the taxpayer to purchase and maintain a 7-day supply of nonperishable food, water, and other necessary supplies for use in an emergency or natural disaster;
- Authorizes the Director of Taxation to require reasonable information to determine the validity of any claim for the credit and to adopt rules to implement the credit;
- Applies to taxable years beginning after December 31, 2017.

First, the Department notes that the definition of "qualified expenses" is very broad as it includes "other necessary supplies" in addition to food and water. The Department recommends amending the definition of "qualified expenses" to include only nonperishable food, water, and other specifically enumerated supplies. Including a specific list of items will ensure the credit is used for the intended purpose, reduce the potential for fraud, and make the credit easier to administer.

Second, the Department notes that the proposed credit is equal to 100% of the amount of qualified expenses. This means that taxpayers' tax liability will be decreased by the full amount the taxpayer spends on emergency food, water, and supplies. A credit as generous as this can

lead to abuse because in effect any purchased supplies are free. To address this, the Department recommends making the credit equal to a percentage, less than 100%, of the taxpayer's qualified expenses, up to a maximum.

Third, the Department notes that, as written, the cap of \$1,000 will be applied per tax year and it is not clear whether jointly filing taxpayers are eligible for a \$1,000 credit each. This means that each taxpayer would be eligible to claim a \$1,000 tax credit per year or possibly \$2,000 for jointly filing taxpayers. To address this, the Department suggests limiting the credit to a one-time credit for the purchase of emergency supplies and specifying whether jointly filing taxpayers are eligible for two credits. This could be achieved by making clear in the bill that the \$1,000 cap is per taxpayer (\$2,000 if filing jointly), not per taxable year, and by making the credit temporary.

Finally, the Department respectfully requests that the new tax credit be made applicable to taxable years beginning after December 31, 2018. The Department is in the process of implementing individual income tax into its new computer system and additional time will allow the Department to properly implement new tax features such as credits.

Thank you for the opportunity to provide comments.

HB-2239

Submitted on: 2/7/2018 8:58:18 AM

Testimony for PBS on 2/8/2018 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	OCC Legislative Priorities	Support	No

Comments:

LATE

HB-2239

Submitted on: 2/7/2018 11:02:46 PM

Testimony for PBS on 2/8/2018 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Don Aweau		Support	No

Comments: