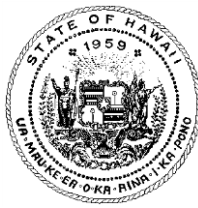


DAVID Y. IGE  
GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF PUBLIC SAFETY**  
919 Ala Moana Boulevard, 4th Floor  
Honolulu, Hawaii 96814

**NOLAN P. ESPINDA**  
DIRECTOR

**Cathy Ross**  
Deputy Director  
Administration

**Jodie F. Maesaka-Hirata**  
Deputy Director  
Corrections

**Renee R. Sonobe Hong**  
Deputy Director  
Law Enforcement

No. \_\_\_\_\_

TESTIMONY ON SENATE BILL 2696  
RELATING TO TAXATION.

by  
Nolan P. Espinda, Director  
Department of Public Safety

Senate Committee on Public Safety, Intergovernmental, and Military Affairs  
Senator Clarence K. Nishihara, Chair  
Senator Glenn Wakai, Vice Chair

Tuesday, January 30, 2018; 1:15 p.m.  
State Capitol, Conference Room 229

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

The Department of Public Safety (PSD) **supports** Senate Bill (SB) 2696 and respectfully offers the following amendment, which we believe would serve to improve employment prospects for offenders released from our Correctional Centers and Facilities.

PSD would like to suggest the measure be amended to insert the following language (italicized) in page 1, line 5:

*"...technology business that currently participates in the Work Opportunity Tax Credit (WOTC) program administered by the United States Department of Labor, Employment and Training Administration."*

This additional information will ensure that technology business owners have direct knowledge of the WOTC benefits and provide further incentive to employers to hire ex-felons.

Thank you for the opportunity to present this testimony.

DAVID Y. IGE  
GOVERNOR

SHAN S. TSUTSUI  
LIEUTENANT GOVERNOR



LINDA CHU TAKAYAMA  
DIRECTOR

DAMIEN A. ELEFANTE  
DEPUTY DIRECTOR

**STATE OF HAWAII  
DEPARTMENT OF TAXATION**

830 PUNCHBOWL STREET, ROOM 221

HONOLULU, HAWAII 96813

<http://tax.hawaii.gov/>

Phone: (808) 587-1577 / Fax: (808) 587-1584

To: The Honorable Clarence Nishihara, Chair,  
and Members of the Senate Committee on Public Safety, Intergovernmental, and  
Military Affairs

Date: January 30, 2018  
Time: 1:15 P.M.  
Place: Conference Room 229, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: S.B. 2696, Relating to Taxation.

The Department of Taxation (Department) appreciates the intent of S.B. 2696 and offers the following comments for your consideration.

S.B. 2696 creates a nonrefundable tax credit for high technology businesses that hire former inmates of the Department of Public Safety. The credit percentage and the aggregate cap amounts are unspecified. The measure is effective upon approval and applies to taxable years beginning after December 31, 2017.

First, the Department notes that the bill does not prohibit the hiring of the same inmate employee. The bill as written would allow multiple credit claims for the hiring of the same employee. If the intent of S.B. 2696 is to limit the credit to the first employer, the Department suggests that a provision indicating this limitation be added. The Department also suggests that the word "initially" be inserted on page 1, line 7 before the word "employed." This amendment will preclude an employer from claiming the credit multiple times for a single employee by firing and rehiring the employee every six months.

Second, the Department is not able to administer the aggregate cap as part of tax return processing as may be intended here. If an aggregate cap is desired for this credit, the Department suggests that another agency be tasked with certifying the substance of the credit by making sure that a credit is not claimed for the same inmate employee and administering the aggregate cap.

Finally, because this measure enacts a new tax credit, the Department requests that it be made applicable to taxable years beginning after December 31, 2018. This will provide the Department sufficient time to make the necessary form and computer system changes.

Thank you for the opportunity to provide comments.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Credit for Technology Business Hiring Former Inmate

BILL NUMBER: SB 2696

INTRODUCED BY: WAKAI, INOUE, Baker, Dela Cruz, K. Kahele, Kim, Nishihara, Riviere

EXECUTIVE SUMMARY: Establishes an income tax credit for the hiring of a former inmate of \_\_\_% of the wages paid to such individual for the first six months. The adoption of this credit would provide tax relief to taxpayers regardless of their need for tax relief. It also would shift the burden of paying for government to the rest of us.

SYNOPSIS: Adds a new section to HRS chapter 235 to allow a taxpayer who owns a technology business to claim an income tax credit for the hiring of a former inmate equal to \_\_\_% of the qualified wages for the first six months after the individual is hired.

Tax credits that exceed the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted. In no taxable year shall the total amount of tax credits claimed exceed \$ \_\_\_\_\_ per taxpayer.

Defines "technology business" by cross-referencing section 480-4(d), Hawaii Revised Statutes, which states:

"Technology business" means a trade or business that derives the majority of its gross income from the sale or license of products or services resulting from its software development or information technology development, or both. A "technology business" excludes any trade or business that is considered by standard practice as part of the broadcast industry or any telecommunications carrier, as defined in section 269-1, that holds a franchise or charter enacted or granted by the legislative or executive authority of the State or its predecessor governments.

Requires the director of taxation to prepare any forms necessary to claim a credit, may require a taxpayer to furnish reasonable information to validate a claim for the credit, and adopt rules pursuant to HRS chapter 91. Requires claims for the credit, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit is claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

EFFECTIVE DATE: Applies to taxable years beginning after December 31, 2017.

STAFF COMMENTS: This measure is proposed as an incentive to entice employers to hire an individual who is a former inmate. But there are several questions to be explored here.

Why is the credit given to the owner of a technology business rather than the technology business? Does it mean that if a technology business is owned by 1,000 shareholders, and the

business employs one former inmate, that each of the 1,000 owners gets a credit in the same amount? (The language of the bill suggests this result.)

And what is it about a technology business that merits a tax credit where other businesses who hire former inmates get nothing?

Assuming there is a social policy sought to be advanced here, the tax system is a poor means of advancing the policy or achieving its goals. Providing such credits against the state income tax merely reduces state revenues, and if the size of government does not go down, then the tax burden shifts to other taxpayers who are not able to claim the credit.

Finally, if it is decided that this route is one worth pursuing, serious consideration should be given to amending the existing credit for employment of vocational rehabilitation referrals in Hawaii Revised Statutes section 235-55.91 as opposed to enacting a brand new credit, which is bound to be rife with technical flaws.

Digested 1/26/2018

**SB-2696**

Submitted on: 1/26/2018 4:34:14 PM

Testimony for PSM on 1/30/2018 1:15:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Brett Kulbis		Oppose	No

Comments:

I **OPPOSE** this legislation. Why are we limiting this to technology businesses? If you want to help former inmates with employment, provide the income tax credit for wages paid by a **ALL** business owners to employees who were formerly in the custody of the department of public safety.

Brett Kulbis

**SB-2696**

Submitted on: 1/29/2018 12:58:41 PM

Testimony for PSM on 1/30/2018 1:15:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
E. Ileina Funakoshi		Comments	No

Comments:

Support the idea but are there sufficient tech classes to prepare the inmates to qualify for tech jobs?