



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, Veterans, & Military
Affairs

Date: Friday, February 8, 2019
Time: 10:00 A.M.
Place: Conference Room 430, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 732, Relating to Taxation

The Department of Taxation (Department) provides the following comments regarding H.B. 732 for your consideration.

H.B. 732 establishes a non-refundable income tax credit of up to \$500 for the purchase of household disaster preparedness supplies. The measure is effective upon approval and applies to taxable years beginning after December 31, 2018.

The Department first notes that "qualified expenses" is defined as purchasing one or more prepackaged disaster preparedness kits, provided it does not exceed the amount necessary to provide for an unstated number of days for the taxpayer and the taxpayer's household. This standard is subjective and may lead to disputes over what is necessary for the household. The Department suggests limiting it to one kit per family member, including the taxpayer and the spouse.

Second, the Department notes this credit will not assist those taxpayers who are most in need of government assistance to purchase these types of supplies if they have no taxable income.

Finally, the Department requests that the effective date for this new credit be made applicable to taxable years beginning after December 31, 2019 in order to prepare the necessary forms and instructions and to educate the public about the credit.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

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Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax Credit for Disaster Preparedness Supplies

BILL NUMBER: HB 732

INTRODUCED BY: KITAGAWA, ELI, GATES, HASHIMOTO, JOHANSON, KONG, MATAYOSHI, MCKELVEY, NISHIMOTO, OHNO, PERRUSO, TAKAYAMA, WILDBERGER, D. Kobayashi

EXECUTIVE SUMMARY: Establishes a nonrefundable tax credit for ___% of the costs incurred during the taxable year for purchasing and installing disaster preparedness supplies, to a maximum of \$500. 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 credit of ___% of the costs of purchasing disaster preparedness supplies, to a maximum of \$500. Each taxpayer may claim the credit once before January 1, 2026.

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.

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.

Defines "qualified expenses" as costs that are directly incurred by the taxpayer to purchase one or more prepackaged disaster preparedness kits for the taxpayer and, if applicable, the taxpayer's household; provided that the aggregate contents of the kit or kits do not exceed the amount of supplies necessary to provide the taxpayer and the taxpayer's household a ___-day supply of those contents.

Defines "prepackaged disaster preparedness kit" as a comprehensive supply of nonperishable food, water, or other necessary supplies intended for use in the event of a disaster, manufactured and sold as a kit.

Defines "disaster" as any emergency, or imminent threat thereof, which results or may likely result in substantial injury, harm, or loss of life among the general population or substantial damage to or loss of property of the general population, including fire, flood, tsunami, volcanic eruption, earthquake, high wind, or other natural causes or by enemy attack, sabotage, or other hostile action.

EFFECTIVE DATE: Taxable years beginning after December 31, 2018.

STAFF COMMENTS: Lawmakers need to keep in mind two things. First, the tax system is the device that raises the money that they, lawmakers, like to spend. Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount. The second point to remember about tax credits is that they are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as generous about the expenditure of these funds when our kids are roasting in the public school classrooms, there isn't enough money for social service programs, or our state hospitals are on the verge of collapse?

If lawmakers want to subsidize the purchase of this type of merchandise, then a direct appropriation would be more accountable and transparent. Hawaii Energy, for example, administers rebate programs for consumers who purchase energy efficient appliances and devices. The amounts of the rebates are tracked and easily totaled for relevant reporting periods.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount. A direct appropriation may be a far less costly method to accomplish the same thing.

Digested 2/6/2019

HB-732

Submitted on: 2/7/2019 9:43:28 AM

Testimony for PVM on 2/8/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i	Support	No

Comments:

STATE OF HAWAII
DEPARTMENT OF DEFENSE
HAWAII EMERGENCY MANAGEMENT AGENCY

LATE

TESTIMONY ON
HOUSE BILL 732, RELATING TO TAXATION

Before the House Committee on
PUBLIC SAFETY, INTERGOVERNMENTAL, AND MILITARY AFFAIRS

by

THOMAS L. TRAVIS
Administrator, Hawaii Emergency Management Agency (HI-EMA)

Aloha Chair Takayama and Vice-Chair Gates, and Members of the Committee:

The Hawaii Emergency Management Agency (HI-EMA) **supports** House Bill 732

House Bill 732 Establishes an income tax credit for the purchase of household disaster preparedness supplies.

Note: My comments represent HI-EMA concerns at the state emergency management level only. I would defer to the separate comment/testimonies of the county emergency management agencies, as they would be the jurisdictions impacted by this legislation at the local level.

Thank you for the opportunity to provide testimony on House Bill 732.

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