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To: The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Friday, February 15, 2019
Time: 10:00 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 76, S.D.1, Relating to Taxation

The Department of Taxation (Department) provides the following comments regarding S.B. 76, S.D. 1, for your consideration.

Originally a short form bill, S.B. 76, S.D. 1, establishes a non-refundable income tax credit in an unstated amount for the purchase of a personal emergency response system, provided that the Adjusted Gross Income (AGI) of the taxpayer is not more than \$45,000. The total of all credits in a given taxable year cannot exceed an unspecified amount, is effective upon approval, and applies to taxable years beginning after December 31, 2018.

First, the Department requests that the measure clarify that the AGI used in determining the eligibility for the credit is federal AGI and not Hawaii AGI. Federal AGI is a more precise indicator of a taxpayer's financial condition because Hawaii does not tax various items such as pensions where the employer made the contribution.

Second, the Department notes that the same AGI limit applies to all taxpayers regardless of tax filing status. To remedy this, the Department suggests the following revision to subsection (a):

(a) There shall be allowed to each taxpayer subject to the tax imposed by this chapter, a tax credit for the purchase of a personal emergency response system; provided that the credit shall only be available to a taxpayer whose federal adjusted gross income does not exceed \$45,000 for a person filing as single or as married filing separately, 67,500 for a person filing as head of household, and \$90,000 for a person filing as married filing jointly.

Third, the Department is unable to administer an aggregate cap on the total amount credit allowed in a taxable year. The Department will not know the total amount of claims made for the credit until returns are actually filed. It is not clear what happens should the amount of the claims made in a taxable year exceed the unstated limitation for the year. In addition, the use of “taxable year” means that the Department would have to have different calculations depending on what the taxable year is for the individual. The Department strongly suggests another agency with the expertise in this area be required to certify the credit if an aggregate cap on the credit is desired.

Finally, the Department respectfully requests that this new credit be made available for taxable years beginning after December 31, 2019 to allow sufficient time to make the necessary form, instructions, and computer system changes.

Thank you for the opportunity to provide comments.



O`ahu County Committee on Legislative Priorities

COMMITTEE ON WAYS AND MEANS
Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair

DATE: Friday, February 15, 2019

TIME: 10:00 a.m.

PLACE: Conference Room 211, State Capitol

RE: SB 76 Relating to Taxation

To the Honorable Donovan M. Dela Cruz, Chair; the Honorable Gilbert S.C. Keith-Agaran, Vice Chair, and the Members of the Committee on Ways and Means:

My name is Melodie Aduja and I serve as Chair of the O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i. Mahalo nui loa for this opportunity to provide testimony on SB 76. The O`ahu County Committee on Legislative Priorities (OCCLP) of the Democratic Party of Hawai`i (DPH) hereby submits its testimony in **SUPPORT of SB 76 relating to Taxation.**

SB 76 provides a tax credit to each taxpayer for the purchase of a personal emergency response system; provided that the taxpayer has an adjusted gross income of less than \$45,000.

DPH demands the protection of the people of Hawai`i and their property against natural and man-made disasters. DPH believes in the science of climate change, affirms human activity as its primary cause and main driver, and supports emergency preparedness and planning efforts to mitigate its impacts. This includes investments in early warning systems, emergency management and response systems, and adequate emergency sheltering. *Democratic Party of Hawai`i Platform (2018), p. 20, ln. 28-32.*

For the foregoing reasons, to wit, to protect the people of Hawai`i and their property against natural and man-made disasters by personal investments in early warning systems, emergency management and response systems, and adequate emergency sheltering, OCCLP supports SB 76 and urges its passage out of the Committee on Ways and Means.

Mahalo nui loa
Me ka `oia`i`o

/s/ *Melodie Aduja*

Melodie Aduja

Chair, O`ahu County Committee on Legislative Priorities of the Democratic Party of
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TAX FOUNDATION OF HAWAII

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SUBJECT: INCOME TAX

BILL NUMBER: SB 76, SD-1

INTRODUCED BY: Senate Committee on Ways and Means

EXECUTIVE SUMMARY: Establishes a non-refundable tax credit for the purchase of a personal emergency response system, under certain conditions.

SYNOPSIS: Adds a new section to chapter 235, HRS, to establish a tax credit for purchase of a personal emergency response system for a taxpayer who has an adjusted gross income of less than \$45,000.

Defines "personal emergency response system" as an alarm system designed to permit the user to signal the occurrence of a medical or personal emergency to alert a provider.

The amount of the credit is \$ _____. The credit is nonrefundable but may be carried forward 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.

EFFECTIVE DATE: This Act, upon its approval, shall apply to 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 personal emergency response systems, then a direct appropriation would be more accountable and transparent.

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

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appropriation, or adding on to an existing rebate program, may be a far less costly method to accomplish the same thing.

Digested 2/12/2019