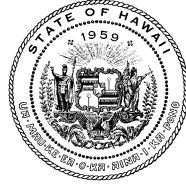


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To: The Honorable Donovan M. Dela Cruz, Chair;
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair;
and Members of the Senate Committee on Ways and Means

From: Rona M. Suzuki, Director
Department of Taxation

Re: **S.B. 2066, Relating to the General Fund**

Date: Wednesday, January 29, 2020

Time: 10:10 A.M.

Place: Conference Room 211, State Capitol

The Department of Taxation (Department) supports the intent of S.B. 2066. Pursuant to Article VII, Section 6, of the Hawaii Constitution, this measure provides a refundable income tax credit for an unspecified amount to each resident individual taxpayer who files an individual income tax return for the 2020 taxable year. S.B. 2066 is effective on July 1, 2020.

The Department will be able to administer the measure with its current effective date, provided that the amount of the tax credit is specified.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

ROBERT YU
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE**

P.O. BOX 150
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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 2066**

**January 29, 2020
10:10 a.m.
Room 211**

RELATING TO THE GENERAL FUND

The Department of Budget and Finance (B&F) supports the intent of Senate Bill (S.B.) No. 2066.

S.B. No. 2066 makes separate undetermined general fund appropriations to:

1) provide a tax credit for Hawai'i State individual income tax purposes; 2) pre-pay other post-employment benefits (OPEB) liabilities; or 3) be deposited into the Emergency and Budget Reserve Fund (EBRF). The measure is being proposed as a means to comply with the constitutional mandate to provide a tax refund or credit; make a pre-payment for debt service, pension, or OPEB; or make a deposit into a reserve fund.

Article VII, Section 6, Hawai'i State Constitution, regarding the Disposition of Excess Revenues, requires that whenever the State general fund balance at the close of each of two successive fiscal years exceeds 5% of general fund revenues for each of the two fiscal years, the Legislature must provide for a tax refund or tax credit to State taxpayers; make a pre-payment for debt service, pension, or OPEB liabilities; or make a deposit into a reserve fund as provided by law. Section 328L-3, HRS, provides that

whenever general fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by 5%, 5% of the general fund balance shall be deposited into the EBRF.

For FYs 18 and 19, general fund balances were greater than 5% of general fund revenues. FY 18 and FY 19, total (tax and non-tax) general fund revenues were less than 5% of the previous year's revenues. Accordingly, the 2020 Legislature must provide a tax refund or tax credit; appropriate funds for the pre-payment of certain liabilities; or has the option to make a deposit into the EBRF.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: NET INCOME, Tax Credit, Disposition of Excess Revenues

BILL NUMBER: SB 2066

INTRODUCED BY: DELA CRUZ, KANUHA, KEITH-AGARAN, KIDANI, Inouye, Shimabukuro

EXECUTIVE SUMMARY: Provides for a tax credit and appropriations to the rainy day fund and the trust fund for “other post-employment benefits” (OPEB) for state workers. This bill implements Article VII, section 6, of the Hawaii Constitution.

SYNOPSIS: Adds an uncodified section providing for a general income tax credit in an unspecified amount for each taxpayer filing an individual return in 2020.

Makes appropriations of unspecified amounts to the emergency and budget reserve fund, the other post-employment benefits trust fund.

EFFECTIVE DATE: July 1, 2020.

STAFF COMMENTS: Article VII, section 6 of the Hawaii Constitution requires that whenever the state general fund balance at the close of each of two successive fiscal years exceeds five percent of general fund revenues for each of the two fiscal years, the legislature shall either: (1) provide a tax credit or refund to the taxpayers of the State; (2) deposit the money into a rainy day fund ; or (3) appropriate general funds for either (A) debt service or (B) OPEB.

It’s hard to get excited about this provision, however, because the Constitution does not say anything about how much of the excess revenues are to be disposed of in these ways.

The last time we had a constitutional convention, in 1978, delegates thought that government shouldn’t be keeping the people’s money if it didn’t have to. “Your Committee believes that it is proper for the State’s taxpayers to benefit from any surplus in the State’s general fund balance,” they said in Committee of the Whole Report No. 14.

So, they put before the voters, and the voters approved, what became Article VII, section 6 of our Constitution. It says that if our general fund balance is more than 5% of general fund revenues for two fiscal years in a row, then the legislature is supposed to enact a tax credit or refund to give some of that money back to us taxpayers.

This credit came to be called the general income tax credit. In most of the years of its life, however, it provided for a credit of either \$1 or nothing.

In 2010, the legislature proposed, and voters approved, a constitutional amendment that allowed lawmakers to forgo providing a tax credit if they instead shoved some money into our rainy-day fund. Thus 2009 was the last year of the general income tax credit. In 2016, voters approved a

Re: SB 2066

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further constitutional amendment that would allow the money to go to debt service or OPEB.
But still there is nothing mandating any particular amount.

Digested 1/27/2020