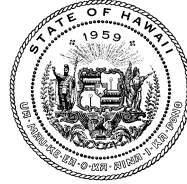


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
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DEPARTMENT OF TAXATION
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To: The Honorable Jarrett Keohokalole, Chair
and Members of the Senate Committee on Health

From: Isaac W. Choy, Director
Department of Taxation

Date: Friday, January 28, 2022
Time: 1:00 P.M.
Place: Via Video Conference, State Capitol

Re: S.B. 2753, Relating to Taxation

The Department of Taxation (Department) offers the following comments regarding S.B. 2753 for your consideration.

S.B. 2753 establishes a blood donation income tax credit for employers with the intent of addressing historic blood shortages experienced by the Blood Bank of Hawaii during the COVID-19 pandemic. S.B. 2753 applies to taxable years beginning after December 31, 2021, but beginning before January 1, 2028.

First, the Department notes that the proposed tax credit benefits the employer based upon participation of employees. The Department further notes that employee opportunities offered by the employer which financially benefit the employer may appear coercive.

Second, the Department suggests amending the definition the term “verified donation” to require the nonprofit blood bank to certify in writing the number of employees who donated blood during the “blood donation drive.” As currently written, the definition only requires that the employer document the donation.

Third, the Department notes that subsection (b) is confusing. The Department suggests simplifying the calculation and adjustment of the credit. If the intent is to reduce the aggregate amount of credit allowed to all taxpayers, the amounts should be expressly stated.

Fourth, “blood donations” are defined as being “voluntary and uncompensated.” The Department suggests clarifying that the wages or salary received as compensation for services does not disqualify the blood donation from qualifying for the credit.

Finally, the Department suggests amending the effective dates in Section 4 to read, “This Act, upon its approval, shall apply to taxable years beginning after December 31, 2021, but not to taxable years beginning after December 31, 2027.” If the credit were to be made available for tax year 2022, as currently written, taxpayers that conducted a “blood donation drive” prior to the enactment of this new credit would get a windfall. In addition, making the credit first available for tax year 2023 will provide the Department time to make the necessary forms, instructions, and computer system changes.

Thank you for the opportunity to provide comments on this measure.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax Credit for Employee Blood Donations

BILL NUMBER: SB 2753

INTRODUCED BY: INOUYE, CHANG, GABBARD, NISHIHARA, Kim, San Buenaventura, Wakai

EXECUTIVE SUMMARY: Establishes a tax credit for verified employee blood donations made at an employer sponsored blood drive. Applies to taxable years 2022-2027. Our view is that if the amounts being considered are modest, the tax system should not be used. A check can go to the employer who then can distribute it to the donees; or an appropriate agency such as the Department of Health can issue checks to the employees directly.

SYNOPSIS: Adds a new section to chapter 235, HRS, to allow a tax credit for employee blood donations made at employer-hosted blood donation drives. Allows \$___ for each verified donation, with an annual statewide cap of \$____. The credit is nonrefundable but may be carried forward until exhausted.

Defines “blood donation” as the voluntary and uncompensated donation of whole blood, or specific components of blood, by the taxpayer's employee, drawn for use by a nonprofit blood bank organization as part of a blood drive.

Defines “nonprofit blood bank organization” as an entity that is organized and operated in accordance with section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and for the purpose of providing a safe and adequate blood supply, blood products, and blood related transfusion services to patients in the State.

EFFECTIVE DATE: Applies to taxable years beginning after December 31, 2021, but before January 1, 2028.

STAFF COMMENTS: The tax system is there to raise revenue to keep the government moving. 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.

Furthermore, tax credits 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, overtaxed by the pandemic?

It is not possible to tell from this measure, with the blank amounts in it, how much of a tax credit is being considered here. If the amount per donation is relatively modest, perhaps less than \$100, then there is no reason to get the tax system and all its complexities involved.

Re: SB 2753

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If lawmakers want to subsidize this activity, then a direct appropriation would be more accountable and transparent. That way lawmakers will be very clear on (1) how much we taxpayers are paying, and (2) what we are getting in return. A check can go to the employer who then can distribute it to the donees; or an appropriate agency such as the Department of Health can issue checks to the employees directly.

Digested: 1/27/2022

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
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
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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY
TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON HEALTH
ON
SENATE BILL NO. 2753

January 28, 2022
1:00 p.m.
Via Videoconference

RELATING TO TAXATION

The Department of Budget and Finance (B&F) offers comments on this bill.

Senate Bill No. 2753 establishes a non-refundable income tax credit of an unspecified amount for employee blood donations made at an employer sponsored blood drive.

B&F notes that the federal American Rescue Plan (ARP) Act restricts states from using ARP Coronavirus State Fiscal Recovery Funds (CSFRF) to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation beginning on March 3, 2021, through the last day of the fiscal year in which the CSFRF have been spent. If a state cuts taxes during this period, it must demonstrate how it paid for the tax cuts from sources other than the CSFRF, such as:

- By enacting policies to raise other sources of revenue;
- By cutting spending; or
- Through higher revenue due to economic growth.

If the CSFRF provided have been used to offset tax cuts, the amount used for this purpose must be repaid to the U.S. Treasury.

The U.S. Department of Treasury has issued rules governing how this restriction is to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai'i complies with this ARP restriction.

Thank you for your consideration of our comments.

SB-2753

Submitted on: 1/27/2022 2:08:20 PM

Testimony for HTH on 1/28/2022 1:00:00 PM

LATE

| Submitted By | Organization | Testifier Position | Remote Testimony Requested |
|---------------------|---------------------|---------------------------|-----------------------------------|
| Ilima DeCosta | Individual | Oppose | No |

Comments:

SB2753 seeks to monetize what has been a voluntary activity. The Blood Bank already has a system of compensating "donors"; if state or county employees want to receive compenstation, they should not donate to the Blood Bank, they should sell their blood/plasma.