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**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 2959, Relating to Taxation.

BEFORE THE:

Senate Committee on Ways and Means

DATE: Tuesday, February 13, 2024

TIME: 10:00 a.m.

LOCATION: State Capitol, Room 211

Chair Dela Cruz, Vice-Chair Moriwaki, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding S.B. 2959 for your consideration.

S.B. 2959 adds a new section to chapter 235, Hawaii Revised Statutes (HRS), to create a new refundable income tax credit for resident taxpayers who paid travel expenses, not covered by insurance, to obtain medical care for themselves or their dependent. To be eligible, the taxpayer must have less than an unspecified amount of adjusted gross income; the credit is limited to an unspecified percentage of travel expenses. The credit would apply to taxable years beginning after December 31, 2023.

First, the Department notes that it generally prefers that new income tax credits be made nonrefundable, as refundable credits are more susceptible to waste, abuse, and fraud.

Second, the Department suggests that the bill be amended to add definitions for the terms "dependent" and "medical care."

Finally, if the Committee wishes to advance this measure, the Department requests that it be made applicable to taxable years beginning after December 31, 2024. This will provide sufficient time to make the necessary form, instruction, and computer system changes for this new credit.

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

TAX FOUNDATION OF HAWAII

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SUBJECT: INCOME TAX; Medical Travel; Tax Credit

BILL NUMBER: SB 2959

INTRODUCED BY: RICHARDS

EXECUTIVE SUMMARY: Establishes an income tax credit for medically-related travel expenses not covered by insurance.

SYNOPSIS: Adds a new section to chapter 235, HRS, to create a new refundable tax credit for medical travel expenses. Eligible taxpayers are those with an adjusted gross income of less than \$_____ who pay for travel expenses not covered by insurance for the purpose of obtaining medical care for the taxpayer's self or dependent. The amount of the credit is ___% of the travel expenses paid.

The tax credits shall be deductible from the taxpayer's individual net income tax for the tax year in which the credits are properly claimed; provided that spouses filing separate returns for a taxable year for which a joint return could have been made by them shall claim only the tax credits to which they would have been entitled had a joint return been filed.

All of the provisions relating to assessments and refunds under this chapter and under section 231-23(c)(1) shall apply to the tax credits hereunder.

Claims for tax credits under this section, including any amended claims thereof, shall be filed on or before the end of the twelfth month following the taxable year for which the credit may be claimed.

EFFECTIVE DATE: Upon approval, applicable to taxable years beginning after December 31, 2023.

STAFF COMMENTS: 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?

Technical comments:

Proposed section 235-__(d), providing that the provisions for assessments and refunds apply, is not needed. They apply anyway.

Re: SB 2959

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We suggest that the term “the tax year in which the credits are properly claimed” be clarified to lessen possible confusion. For example, consider “the tax year in which the travel expenses were paid or incurred.”

Digested: 2/8/2024

SB-2959

Submitted on: 2/8/2024 6:48:04 PM

Testimony for WAM on 2/13/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
B.A. McClintock	Individual	Support	Written Testimony Only

Comments:

Please support this important bill. I wish this bill was around when I had cancer the second time. The only hospital that could help me because of other health problems was located in Dallas. I had to spend 2 months there on my dime. When my husband was dying of cancer there was an outside chance of a shot in Mexico that might help. We had to give them \$35,000 up front just to get into the clinic. This bill is one of the most important bills you can support, please do so. Mahalo for your time.