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TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:
H.B. No. 577, Relating to Taxation

BEFORE THE:
House Committee on Transportation

DATE: Tuesday, January 28, 2025
TIME: 10:00 a.m.
LOCATION: State Capitol, Room 430

Chair Kila, Vice-Chair Grandinetti, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding H.B. 577 for your consideration.

H.B. 577 establishes a new tax credit under chapter 235 for individual or corporate employers located in counties with populations of 700,000 or more (limiting the credit to Honolulu County/Oahu) that purchase public transportation fares or passes for their employee. The credit will be equal to the amount spent by the employer during the taxable year and applied against the company's income tax liability. If the credit exceeds the taxable year liability, the excess can be carried forward to future tax years.

Employers must claim the credit by the end of the twelfth month following the close of the taxable year, and the director of taxation is required to submit reports to the legislature about the credit's usage and impact prior to the 2027, 2028, 2029, and 2030 legislative sessions. The bill defines "public transportation" as mass transit programs that are open to the general public, operated or contracted by the State or county, and located in a county with over 700,000 residents.

The bill is effective upon approval for taxable years beginning after December 31, 2024, but will not be available for taxable years beginning after December 31, 2029.

First, DOTAX notes that tax credits offered at 100 percent of expenditures create incentives for abuse and waste. Thus, DOTAX recommends that this new credit be offered at an amount less than 100 percent.

DOTAX also recommends that unused nonrefundable credits have a sunset date so they cannot be carried forward indefinitely. In general, credits claimed farther away from the year in which they are incurred are difficult to verify and create further incentives for abuse. Specifically, DOTAX recommends that subsection (d) be amended by adding a proviso that reads as follows:

> (d) If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of the credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted; <u>provided that no credit carried forward under this subsection shall be used as a credit for a taxable year beginning after December 31, 2030.</u>

Additionally, to prevent taxpayers from claiming a double benefit, DOTAX recommends adding a new subsection that reads as follows:

> No other tax credit or deduction shall be claimed under this chapter for the costs used to claim a tax credit under this section for the taxable year.

Further, with respect to the reporting requirements in subsection (g), DOTAX can provide the number and value of the credits claimed, as specified in paragraphs (1) and (2), but would not be able to measure the impact of the credit for non-tax purposes, such as the impact of the credit on the use of public transportation, traffic, or employee retention. Similarly, DOTAX would not be able to make a recommendation on whether the credit should be continued. Accordingly, DOTAX requests that the reporting requirements in subsection (g)(3) and (4) be deleted.

Furthermore, DOTAX requests that if this measure moves forward, the bill be amended to apply to taxable years beginning after December 31, 2025, to allow sufficient time for the necessary form, instruction, and computer system changes for proper implementation.

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

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax Credit for Employers Paying Public Transportation Costs

BILL NUMBER: HB 577

INTRODUCED BY: HOLT, GARCIA, LAMOSAO, MARTEN, Muraoka

EXECUTIVE SUMMARY: Authorizes a tax credit for businesses that pay the public transportation costs of employees. Applies to counties having populations of 700,000 or more. Applies for taxable years beginning after 12/31/2024 but not beginning after 12/31/2029. Requires reports to the Legislature.

SYNOPSIS: Adds a new section to chapter 235, HRS, to provide for a public transportation subsidization tax credit. To qualify for the tax credit, the taxpayer shall be an employer having a place of business in any county in the State having a population of 700,000 or more (namely, Oahu only). The credit amount is the amount spent to purchase fares or passes for the taxpayer's employees to use public transportation.

The credit is nonrefundable but may be carried forward until exhausted.

All claims for the tax credit under this section, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the tax credit may be claimed. Failure to meet the filing requirements of this subsection shall constitute a waiver of the right to claim the tax credit.

Defines "public transportation" means any mass transportation program that is:

(1) Open to the general public;

(2) Operated or contracted by the State or a county; and

(3) Operated within a county having a population of 700,000 or more.

EFFECTIVE DATE: Taxable years beginning after December 31, 2024.

STAFF COMMENTS: Utilizing tax credits to drive social policy in this manner is of a questionable benefit relative to the cost for all taxpayers. A direct appropriation of grant funding to employers or public transportation providers would be more accountable and transparent. At least we would know the amount of the appropriation, while the fiscal impact of the credit would be a great big question mark.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount compared to the benefit expected to accrue because of the creditable activity.

Digested: 1/24/2025

TESTIMONY OF TINA YAMAKI
PRESIDENT
RETAIL MERCHANTS OF HAWAII
JANUARY 28, 2025
HB 577 RELATING TO TAXATION

Good morning, Chair Kila and members of the House Committee on Transportation. I am Tina Yamaki, President of the Retail Merchants of Hawaii and I appreciate this opportunity to testify.

The Retail Merchants of Hawaii was founded in 1901 and is a statewide, not for profit trade organization committed to supporting the growth and development of the retail industry in Hawaii. Our membership includes small mom & pop stores, large box stores, resellers, luxury retail, department stores, shopping malls, on-line sellers, local, national, and international retailers, chains, and everyone in between.

We support HB 577. This measure authorizes a tax credit for businesses that pay the public transportation costs of employees; applies to counties having populations of 700,000 or more; applies for taxable years beginning after 12/31/2024 but not beginning after 12/31/2029; and requires reports to the Legislature.

This measure offers a win-win solution that benefits employers, employees, and the community at large. By incentivizing businesses to subsidize public transportation costs, this tax credit would encourage the use of public transportation by making public transportation more accessible to employees, reduces traffic congestion, greenhouse gas emissions, and wear on our infrastructure. As a state striving for sustainability, this aligns with the environmental goals.

It would also alleviate financial strain on employees as the cost of commuting is a significant burden for many workers, particularly in Hawaii, where the cost of living is among the highest in the nation. Subsidizing transit costs provides direct financial relief, helping employees save for other necessities like housing and food.

In addition, it would support workforce retention and recruitment by offering public transportation benefits which would make businesses more competitive in attracting and retaining talent. With many employees prioritizing cost-effective and sustainable commuting options, this credit supports employers in providing meaningful benefits.

Furthermore, it would boost economic productivity by reducing commuting costs lead to less stress and greater punctuality, enhancing overall employee productivity. Furthermore, increasing ridership strengthens our public transportation system’s viability.

The tax credit is a thoughtful policy that addresses critical challenges our community faces - traffic, sustainability, and affordability - while supporting businesses committed to their employees’ well-being.

I urge you to pass this measure to foster a healthier, more sustainable, and economically vibrant Hawaii.

Mahalo again for this opportunity to testify.

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HB-577
Submitted on: 1/25/2025 12:28:55 PM
Testimony for TRN on 1/28/2025 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Jacob Wiencek	Individual	Support	Written Testimony Only

Comments:

Aloha Committee Members,

This proposal for a tax credit for taking public transit is an important development. Our state roads are clogged with ever worsening traffic and we have frankly run out of space to expand road capacity. Encouraging higher usage rates of public transit is important to the long-term sustainability of our communities.

However, I ask the Committee to consider removing the 700,000 population threshold for this credit to apply. Allowing the other three counties to particpate in this opportunity would strengthen the long-term viability of public transit outside of Oahu.

Nonetheless, please pass this legislation!