



STATE OF HAWAII
DEPARTMENT OF TAXATION
830 PUNCHBOWL STREET, ROOM 221
HONOLULU, HAWAII 96813
<http://tax.hawaii.gov/>
Phone: (808) 587-1540 / Fax: (808) 587-1560
Email: Tax.Directors.Office@hawaii.gov



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

Date: Wednesday, February 21, 2018
Time: 10:10 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 2257, Relating to Taxation

The Department of Taxation (Department) has serious concerns regarding S.B. 2257 and offers the following comments for the Committee's consideration.

S.B. 2257 requires that any revenue estimate provided by the Department to the Legislature, executive office, or administrative office include a description of the methodology and assumptions made in deriving the revenue estimate. The bill also subjects revenue estimates and their methodology to public disclosure notwithstanding certain laws prohibiting disclosure of confidential tax return or tax return information. The bill is effective upon approval.

First, the Department notes that it may provide revenue estimates to the Governor, Council on Revenues, and other state agencies, such as the Department of Budget and Finance and the Department of Accounting and General Services, in performance of their respective official functions. The Department is concerned that subjecting the methodology and assumptions of its revenue estimates to public scrutiny will result in the frustration of legitimate government functions.

Second, in preparing revenue estimates, the Department is performing a function that is very similar to the federal Joint Committee on Taxation (JCT). The JCT is nonpartisan committee of the U.S. Congress which is involved in all stages of the legislative process, including bill drafting and preparing official revenue estimates for all proposed tax legislation. The Department is generally tasked with preparing revenue estimates because the Legislature does not have a committee like the JCT to prepare official revenue estimates for it.

The JCT does not provide the specific methodology for each proposed tax measure it provides an estimate for. Instead, the JCT describes its revenue estimating process and general considerations in some detail.¹ An overview of revenue estimating process, as provided by the JCT, is as follows:

- The JCT staff provides estimates relative to baseline receipts projected for future years under present law, not relative to receipts in years prior to the enactment of the proposal.
- The JCT staff incorporates many types of behavioral responses in revenue estimates.
- The JCT staff generally assumes a fixed gross national product when preparing conventional revenue estimates.

The Department is willing and able to provide a similar report which outlines the revenue estimating process that it follows.

Third, the Department firmly believes that revenue estimates prepared for proposed tax legislation should be free of any political pressure. During the consideration of a bill, the legislative focus will often shift from the substance of a tax measure to the revenue estimate for it. This is appropriate given the importance of a balanced budget. However, if the methodologies and assumptions behind revenue estimates are disclosed, the focus may shift not to the cost of the measure but instead to the methodology and assumptions made to determine that cost. The Department is concerned that this focus will compromise the independence of its revenue estimates. To preserve the independence of revenue estimates, the Department does not disclose its methodology or assumptions to anyone outside of the Department, including other executive branch agencies.

Finally, revenue estimates are frequently derived from confidential taxpayer data. The Department is seriously concerned about the erosion of taxpayer confidentiality this bill represents. It is important to remember that our State's tax system is based on voluntary compliance with the tax laws. Voluntary compliance requires taxpayers to truthfully report their income and pay the tax owed, without any worry that the information reported will be disclosed to the public. Lack of confidence in the voluntary compliance system will result in reduced tax revenues for the State.

Thank you for the opportunity to provide comments.

¹ The Joint Committee on Taxation. "The Joint Committee on Taxation Revenue Estimating Process." January 23, 2017.

THE CIVIL BEAT
LAW CENTER FOR THE PUBLIC INTEREST

700 Bishop Street, Suite 1701
Honolulu, HI 96813

Office: (808) 531-4000
Fax: (808) 380-3580
info@civilbeatlawcenter.org

Senate Committee on Ways & Means
Honorable Donovan M. Dela Cruz, Chair
Honorable Gilbert S.C. Keith-Agaran, Vice Chair

LATE

RE: Testimony in Support of S.B. 2257, Relating to Taxation
Hearing: February 21, 2018 at 10:10 a.m.

Dear Chair and Members of the Committee:

My name is Brian Black. I am the Executive Director of the Civil Beat Law Center for the Public Interest, a nonprofit organization whose primary mission concerns solutions that promote governmental transparency. Thank you for the opportunity to submit testimony **strongly supporting S.B. 2257**.

S.B. 2257 requires public access to revenue estimates and assumptions that are used by the Legislature and State government to decide major issues of public policy. The public records law recognizes: "Government agencies exist to aid the people in the formation and conduct of public policy. Opening up the government processes to public scrutiny and participation is the only viable and reasonable method of protecting the public's interest." S.B. 2257 codifies this State policy in this one critical instance as it applies to revenue estimates.

Revenue estimates often are motivating factors in significant policy decisions. The public cannot have faith in the quality of the State's decisions if it cannot evaluate the quality of the underlying assumptions that drive that decision. Requiring access to revenue estimates allows public scrutiny of the State's assumptions toward the collective goal of developing better public policy and greater public confidence in government decisions.

Thank you again for the opportunity to testify in **support** of S.B. 2257.