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ISAAC W. CHOY
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To: The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair;
and Members of the House Committee on Finance

From: Isaac W. Choy, Director
Department of Taxation

Date: February 25, 2021
Time: 1:00 P.M.
Place: Via Videoconference, Hawaii State Capitol

Re: H.B. 510, H.D. 1, Relating to Taxation

The Department of Taxation (Department) offers the following comments regarding H.B. 510, H.D. 1, for your consideration.

H.B. 510, H.D. 1, amends section 235-55.85, Hawaii Revised Statutes (HRS), to add a new vehicle registration tax credit component to the refundable food/excise tax credit. Individual taxpayers who can claim a refundable food/excise tax credit greater than \$0 would be entitled to an additional refundable vehicle registration fee tax credit of \$25, as long as they registered at least one vehicle with the State and paid the registration fee during the taxable year. Married taxpayers filing joint returns would be entitled to a \$50 credit if they registered at least two vehicles and paid the registration fees during the taxable year. The measure has a defective date of July 1, 2050.

The Department notes that it is able to administer this measure with its previous applicability to taxable years beginning after December 31, 2020. Thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR



TESTIMONY BY:

JADE T. BUTAY
DIRECTOR

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LYNN A.S. ARAKI-REGAN
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STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
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February 25, 2021
1:00 P.M.
State Capitol, Teleconference

H.B. 510, H.D.1
RELATING TO TAXATION

House Committee on Finance

The Department of Transportation (DOT) **supports** the proposed vehicle registration fee tax credit of \$25.00 for persons who are eligible for a refundable food/excise tax credit greater than \$0.00; provided that the taxpayer paid the annual state vehicle registration fee required under section 249-31 during the taxable year for at least one vehicle; and for married taxpayers filing joint returns to claim a credit of \$50.00, provided that the married taxpayers paid the annual state vehicle registration fee for at least two vehicles during the taxable year.

The DOT generally does not support reductions in revenue as they are detrimental to the state highway fund as we support all users of the state highway system and collected revenues provides safer infrastructure enhancements for all users including pedestrians, bicyclists, transit users and motorists and all funds positively impact the department's ability to qualify state matching funds for the highways federal-aid program.

However, since the credit from this proposed bill will not be paid from the state highway fund, we are in support.

Thank you for the opportunity to provide testimony.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

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SUBJECT: INCOME, Tax Credit for Vehicle Registration Fee

BILL NUMBER: HB 510, HD1

INTRODUCED BY: House Committee on Transportation

EXECUTIVE SUMMARY: Establishes a vehicle registration fee tax credit for persons who are eligible for a refundable food/excise tax credit greater than \$0.

SYNOPSIS: Retitles section 235-55.85, HRS, as “Refundable food/excise tax credit; vehicle registration tax credit.” Provides that individual taxpayers who may claim the refundable food/excise tax credit under that section may also claim a refundable vehicle registration fee tax credit of \$25, provided that the taxpayer paid the annual state vehicle registration fee. Married taxpayers filing jointly may claim a refundable vehicle registration fee tax credit of \$50, provided that the taxpayer paid the annual state vehicle registration fee for at least two vehicles during the taxable year.

EFFECTIVE DATE: 7/1/2050.

STAFF COMMENTS: While it appears that this measure proposes tax relief to lower income taxpayers, consideration should be given to adjusting the income tax rates or the threshold amounts so those taxpayers that these credits are aimed to help will not need to claim these credits to get tax relief (or forfeit the credits if they fail to do so).

First, issuing a refund is administratively expensive. In most businesses, the internal process necessary to send money to someone goes through several checks and balances to make sure that no mistakes are made. In our state government, we need to do those processes twice. At the Department of Taxation, staff can ask for a refund to be issued but no one can issue a check. Instead, a document called a “refund voucher” is sent to a different department altogether, the Department of Accounting and General Services (DAGS). Once DAGS gets the refund voucher, it goes through its own processes, checking to see if the recipient doesn’t owe another agency for example, and then issues the check.

Second, a refund can become a target for bad actors. The U.S. Treasury Inspector General for Tax Administration estimating that more than 20% of all federal earned income tax credit (EITC) payouts were improper. Other studies estimated that about half of these so-called improper payments were paid out because someone made a mistake. The other half were paid out because of bad actors. Maybe a taxpayer claimed credits for kids they don’t have. Maybe an unethical tax preparation service filled in data claiming credits for people who exist but aren’t part of the taxpayer’s family. Once the cash goes out, however, it’s tough to get back. If we are talking about a refundable credit less than \$100, the Department of Taxation might not be motivated to chase down the improper payments given the number and severity of other items on their plate.

In addition, we in Hawaii have several disparate programs and tax credits aimed at poverty relief. In addition to the credits already described, income tax credits are allowed to low-income household renters (HRS section 235-55.7), for those with earned income (HRS section 235-55.75), and for those with dependent care expenses necessary for gainful employment (HRS section 235-55.6). Many of the credits have non-duplication provisions and all have strict time limits on when they may be claimed upon pain of credit forfeiture. Apparently, lawmakers of the past had many different ideas on how to address the problem of poverty in Paradise but couldn't figure out which program to go with, so they adopted them all. The principal disadvantage of this scattershot approach is that people can and do get confused over which credits they can and can't claim, and as a result could expose themselves to credit disallowance, penalties, and other consequences that would not lift them out of poverty but instead would push them deeper toward financial ruin.

Now, we simply can't afford tax credits and business as usual. Yes, we need to help those who need it, but the shotgun style used in the past has not produced results. Perhaps a better approach would be lopping off the income tax brackets applicable to lower-income taxpayers and designing ONE credit to encourage social behavior necessary to lift the taxpayer out of poverty.

Digested 2/23/2021