

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Requires new tax credits to sunset or reduce over time

BILL NUMBER: HB 561, SB 1117

INTRODUCED BY: HB by YAMASHITA; SB by KEITH-AGARAN, AQUINO, MCKELVEY, Kidani

EXECUTIVE SUMMARY: Requires that income tax credits established or renewed after 12/31/2023 include a five-year sunset or an annual one-third reduction beginning with the sixth year of the credit. Our concern is whether this bill would be effective if enacted.

SYNOPSIS: Adds a new section to chapter 235, HRS, providing that any income tax credit established or renewed under this chapter after December 31, 2023, shall include either: (1) A five-year sunset date; or (2) Beginning with the sixth year of the credit, a one-third annual reduction in the credit amount allowed to be claimed, over a three-year period.

EFFECTIVE DATE: July 1, 2023.

STAFF COMMENTS: We have concerns over whether this bill, if enacted, would be effective. Normally a current legislature can't bind a future legislature, and later enacted legislation normally prevails over older legislation when the two conflict. Thus, if a future legislature were to pass a bill adding a new tax credit with neither a sunset nor a phaseout, and the bill were signed into law, the law would be effective with neither a sunset nor a phaseout.

We note that the State Auditor is required to review existing income tax credits under HRS sections 23-91 to 23-96 on a five-year rolling basis, and the reports issued by the Auditor are supposed to trigger legislative review. New credits are supposed to be added to the list in those sections of chapter 23, but none of these sections were amended after 2017.

Digested: 1/30/2023

HB-561

Submitted on: 1/30/2023 9:57:01 PM

Testimony for ECD on 2/1/2023 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Will Caron	Individual	Oppose	Written Testimony Only

Comments:

I do not support HB561. Working families that rely on tax credits each year to plan their household budgets need to be able to count on them as reliable income supports. This puts that reliability in jeopardy. There's nothing wrong with periodically reviewing tax credits and updating them or removing them as needed. But automatic phase-outs are a bad idea. Please kill this bill.