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**HOUSE COMMITTEE ON HIGHER EDUCATION  
TESTIMONY REGARDING HB 154  
RELATING TO INCOME TAX CHECK-OFF**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**

**DATE: FEBRUARY 3, 2009**

**TIME: 2PM**

**ROOM: 309**

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This measure modifies provides an additional income tax refund check-off for the University of Hawaii and allocates its payment across the university system and its UH-Hilo athletic program.

The Department **opposes this measure due to its administrative costs and burdens, especially in light of the historically small benefits provided by tax check-offs.**

**COMPUTER SYSTEM**—Changes to the Department's computer system will need to be made to implement this legislation. The automatic donation amount from the check of the box will need to be redeveloped to include additional fixed dollar amounts. Making automation changes to the Department's computer system may have an unknown revenue impact on the Department's budget, which has not been considered in this year's budget.

**FORMS**—The Department will need to amend the forms to accommodate this new provision. Currently there are four "check-the-box" contribution programs on the individual income tax return. The forms must account for the amounts deposited and the allocations to ensure proper funding to the special funds. The additional space needed for this check off may not be available.

**REVENUES HISTORICALLY SMALL**—The Department understands that the current check-off features on the tax return have historically been very small, which would likely provide little assistance to a budgetary undertaking such as that intended by this measure. The Department is also concerned that the cost to implement this check-off amendment could outweigh the benefit.

It is estimated that a check-off for this special fund could generate anywhere between \$94,000 to \$188,000 annually from FY 2010.



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

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Testimony Presented Before the  
House Committee on Higher Education  
February 3, 2009 at 2:00pm

by

Linda K. Johnsrud

Vice President for Academic Planning and Policy, University of Hawai'i System

HB 0154 – RELATING TO INCOME TAX CHECK-OFF

Chair Chang, Vice Chair Nakashima and Members of the Committee:

I am Linda K. Johnsrud, Vice President for Academic Planning and Policy, University of Hawaii System, and I am testifying on behalf of the University on House Bill 0154 that proposes a check-off box in personal income tax returns for amounts that would go to the UH, with allocations going to the ten campuses.

The University of Hawaii System would like to thank the legislature for its efforts to increase the revenues of your public university and supporting us as we do our best to respond to the educational and workforce needs of the state of Hawai'i. We really do appreciate it.

We cannot, however, support HB0154. Viewed from a statewide perspective, there are many pressing social needs facing our community. An income tax check-off should not be created solely for the University.

Thank you for the opportunity to testify.

# TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** INCOME, Tax checkoff for University of Hawaii

**BILL NUMBER:** HB 154

**INTRODUCED BY:** Takai

**BRIEF SUMMARY:** Amend HRS section 235-102.5 to allow individuals with a tax refund of \$\_\_\_\_ or more to designate \$\_\_\_\_\_ of that refund to be paid over to the University of Hawaii. Of the amount collected: (1) one-half shall be divided equally among the 10 University of Hawaii system campuses; (2) one-fourth shall go to the University of Hawaii, Manoa Campus, and (3) one-fourth will go the University of Hawaii, Hilo athletics program. Joint taxpayers with a tax refund of \$\_\_\_\_ or more may also designate \$\_\_\_\_\_ of that refund to be paid to the University of Hawaii.

Requires the director of taxation to revise the individual state income tax form to allow the designation of contributions. If no designation is made on the original tax return when filed, a designation may be made by the individual on an amended return filed within 20 months and 10 days after the due date of the original return for such taxable year. Once a designation is made, it cannot be revoked.

**EFFECTIVE DATE:** Tax years beginning after December 31, 2008

**STAFF COMMENTS:** The proposed measure allows individuals to designate an unspecified amount of their income tax refund to provide funds for the University of Hawaii. It should be remembered that utilizing the tax system as a collection agent for such specific purposes sets poor tax policy.

In a survey by the Federation of Tax Administrators, it was found that the states that utilize checkoff programs have been experiencing a decline in the amount of moneys designated though the checkoff mechanism. The survey also found that due to the administrative costs associated with the checkoff programs, states that currently have the checkoffs are looking to adopt expiration clauses and other means to remove the less productive checkoffs. Consideration should be given to setting a temporary life for these proposals, if adopted, after which an evaluation should be made as to their effectiveness and efficiency.

Further, since the department of taxation would have to track each and every checkoff designation, this added cost will reduce what is available to the general treasury. All taxpayers would be subsidizing this particular program. Utilizing the tax system as a collection agent for such specific purposes sets poor tax policy. Approval of such a mechanism would set a poor precedent, for if a checkoff is approved for the designated purpose, it would open the door for other "worthy" causes. In addition, the enactment of this measure and other checkoffs would lead to a complicated income tax form filled with various checkoffs.

This proposal follows on the heels of the election campaign fund enacted in 1979, then within the last few years, the school-level minor repairs and maintenance checkoff, the libraries fund, and the domestic violence and spousal and child abuse fund checkoffs. One has to ask "where will it end?"

HB 154 - Continued

Advocates of these programs may see this proposal as a way of getting funding for those programs, but in reality this is a way for lawmakers to absolve themselves of the issue since this measure provides funding albeit perhaps not enough to address the problem. Again, because the checkoff is subject to the whim of the individual taxpayer, there is no assurance that moneys generated from the checkoff will be sufficient to fund all the desired programs or services. But lawmakers can ignore the problem because there is a funding stream.

This proposal has the effect of setting this particular program or cause above all others in the competition for public moneys. If lawmakers believe that earmarking funds through a checkoff system is appropriate, then they might consider placing all programs on the state income tax form for designation and consider dissolving the legislative body as there will be no reason for the legislature to exist because decisions will have been made by the income taxpayer. This proposal is indeed a sad commentary that taxpayers do not trust their elected officials to act in their best interests as they construct the state budget each year.

Digested 2/2/09