

Dear Members of the Committee on Tourism, Culture, and International Affairs:

The Holualoa Foundation for Arts and Culture has been a recipient of a grants through the Hawaii State Foundation on Culture and the Arts to present art education programs to visitor and resident adults and children. As visitors and residents work together in this creative atmosphere, visitors are made to feel welcomed and local residents have the opportunity to meet persons from out of state and grow in their understanding of all cultures.

Continued funding to the Hawaii State Foundation on Culture and the Arts will result in providing quality experience to visitors which in turn will encourage them to make return visits.

Thank you.
Tomoe Nimori,
Volunteer Executive Secretary
Holualoa Foundation for Arts and Culture

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SUBJECT: INCOME, Tax checkoff for state foundation on culture and the arts

BILL NUMBER: SB 1127; HB 946 (Identical)

INTRODUCED BY: SB by Taniguchi; HB by Choy

BRIEF SUMMARY: Amend HRS section 235-102.5 to allow individuals with a tax refund of \$2 or more to designate \$2 of that refund to be paid over to the state foundation on culture and the arts. Joint taxpayers with a tax refund of \$4 or more may each designate \$2 of that refund to be paid to the state foundation on culture and the arts.

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 \$2/\$4 of their income tax refund to provide funds for the state foundation on culture and the arts. 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 through 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?"

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 2/6/09