EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

Testimony of
Linda L. Smith
Senior Policy Advisor to the Governor

Before the
HOUSE COMMITTEES ON ECONOMIC REVITALIZATION, BUSINESS, AND MILITARY AFFAIRS and LABOR AND PUBLIC EMPLOYMENT
Thursday, February 11, 2010, 11:00 a.m.
Room 312, State Capitol

HB 2558 RELATING TO JOB CREATION

Chair McKelvey, Chair Rhoads, and Members of the Committees:

The Office of the Governor **supports HB2558**, an Administration proposal that provides a nonrefundable job creation income tax credit for each new full-time permanent employee hired during calendar years 2010 to 2012. This bill is necessary to address the cost of new job creation and encourage businesses to hire new full-time permanent employees during these uncertain economic times.

HB2558 establishes an income tax credit in an amount equal to the wages withheld by the employer, including one allowance, for each new full-time permanent position created and filled by a state resident who previously received, is eligible for, or is currently receiving unemployment benefits. By allowing a credit equal to the wages withheld, this method will help offset the costs to the State in most cases. The tax credit is available for a maximum of three years for each new permanent employee hired.

According to the Department of Business, Economic Development, and Tourism, it is estimated that for every 100 new hires eligible for this job creation tax credit, the net impact to the State is a positive $591,397 per year. This estimate includes a cost of $50,463 in state tax revenues, but also a savings of $641,860 in unemployment insurance benefits provided by the State. Please refer to the attachment for details. Our research also indicates that at least ten states provide various job creation tax credits to incentivize hiring, and many of these tax credits were already in place prior to the current economic downturn. As such, it is not unreasonable to provide a hiring incentive to encourage employment when these types of credits have been and continue to be used by other states to generate employment and personnel investment.

The job creation tax credit will provide a three year incentive to businesses by defraying some of the costs associated with hiring new employees. Especially during these difficult economic times when many employers are worried about hiring too soon, we believe this tax credit will encourage those that are postponing hiring decisions to reconsider. The tax credit is designed with various parameters to ensure full-time permanent job creation:

1) The business must continue to employ at least the same number of employees it had upon hiring the additional full-time employee in order to continue claiming the credit;
2) The business is subject to a 50 percent claw back of all credits if it fails to maintain substantial operation in the State for two years after last receiving the credit; and
3) The new employee must work a minimum of 35 hours per week or 1,680 hours per year for the employer to qualify for the credit.

SB2558 helps Hawaii's unemployed residents get back on the job while also helping Hawaii's businesses to start growing again. As such, the Office of the Governor supports this Administration measure and respectfully requests that it be passed from your committees.

State Revenue Impact from Job Creation Credit (HB2558)

Assumptions	
Average monthly wage statewide	3,205.5
Average unemployment benefit per month	1,620.0
Average maximum 26 week unemployment benefit per person	10,530.0
Income withholding rate, %	4.8
% of unemployed who found jobs within 4 weeks	39.0
% of income spent in the State	81.0
State GET rate, %	4.0
Individual income tax rate, %	5.0
State tax multiplier on PCE, % per dollar spending	7.9
Calculations	
Number of new hires	100
Number of people who would be hired without credit	39
Number of new hires due to credit	61
Total statewide income increase ($), Annual	1,159,737
Increase in spending in the state ($), Annual	939,387
Increase in state taxes from spending increase ($), Annual	74,493
Increase in income tax revenue ($), Annual	57,987
State Tax Revenue Increase ($), Annual	132,480
Income tax lost due to credit ($), Annual	182,944
State tax revenue impact ($), Annual	**-50,463**
Unemployment Insurance Trust Fund impact ($), Annual	**641,860**
Net impact to State ($), Annual	**591,397**

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Job creation tax credit

BILL NUMBER: SB 2711; HB 2558 (Identical)

INTRODUCED BY: SB by Hanabusa by request; HB by Say by request

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow a taxpayer/business to claim a job creation tax credit for up to three years for each new permanent full-time employment position created above the base employment level. Requires the business to continue to employ at least the number of full-time employees on an annualized basis that the business firm had on hiring the additional full-time employee. The job creation tax credit shall be equal to the new permanent full-time employee's wages actually withheld by the employer and one allowance under HRS section 235-61(g).

The job creation tax credit shall be taken against the net income tax liability after all other tax credits have been taken and any excess credits may be used as a credit against subsequent income tax liability until exhausted.

Requires claims for tax credits, including amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the tax credit may be claimed. Failure to file within the twelve-month period shall constitute a waiver of the right to claim the credit. Requires the director of taxation to prepare the necessary forms and procedures to validate a claim for the credit. Stipulates that a business applying for this tax credit shall be ineligible to claim a tax credit or use an exemption under sections HRS 209E-10, 209E-11, or 235-55.91.

Requires any business receiving credit under this section to commit to maintaining substantial operations in the state for at least two years beyond the term of the company's last receipt of income tax credits; provided that noncompliance with this requirement shall result in recapture of fifty percent of the credit claimed under this section in all prior taxable years.

Allows the department of business, economic development, and tourism and the department of labor and industrial relations to inspect and receive tax returns and return information in the administration of this credit.

Defines "eligible employee" as an individual who resides in the state and is receiving unemployment insurance benefits and is eligible to receive such benefits, or had received such benefits and has exhausted those benefits and does not have permanent full-time employment. Also defines "base employment level," "business firm," "first year of credit eligibility," "permanent full-time employment, "new permanent full-time position" and "wages"

This act shall be repealed on December 31, 2012 provided that even though this act is repealed all unexhausted tax credits allowed under this act shall be valid until exhausted and applications for tax credits and tax credits claimed under this act for tax years ending before January 1, 2013 shall be valid even though claimed after December 31, 2012.

EFFECTIVE DATE: Tax years beginning after December 31, 2009

STAFF COMMENTS: This is an administration measure submitted by the office of the governor GOV-26(10). This measure is proposed to encourage employers to hire an additional employee that is receiving unemployment insurance benefits, is eligible to receive such benefits, or had received such benefits and has exhausted those benefits.

While the measure states that "the amount of the job creation tax credit shall be equal to the amount of the new permanent full-time employee's wages actually withheld by the business firm by calculating the new permanent employee's wages utilizing the methods and procedures set forth by the department of taxation taking into account one allowance under HRS section 235-61(g), and no more," it is questionable whether the credit is the amount withheld weekly, biweekly, monthly, semimonthly, etc.

While this measure proposes that to be eligible for the credit the business must continue to employ at least the number of full-time employees on an annualized basis that the business firm had upon hiring the additional full-time employee, it is unclear whether this refers to the number of employees that the business had prior to the hiring of the new employee or whether it means the number of employees that includes the new hire. Also there appears to be no minimum time period a new employee must be retained in order to claim the credit. As proposed, a new employee may be hired and laid off the next month and the business would still be eligible to claim the credit.

The measure also proposes recapture provisions in the event a business does not maintain "substantial operations" in the state for at least two years beyond the term of the company's last receipt of income tax credits. While there is no definition of "substantial operations" it is questionable whether a business will meet those requirements.

Finally, while the intent of the measure is to encourage employers to hire an additional full-time employee, it should be remembered that a business must have sufficient growth or activity to justify the hiring of additional employees. In the state that the economy is right now, it is commendable that many businesses are still around as compared to those that have shuttered their doors recently. Thus, while the intent of this measure is commendable, it falls far short of recognizing the challenges facing business in this economic environment. Rising costs of unemployment insurance, the possibility of an increase in the general excise tax, and increases in fees as well a new maze of regulations with which to comply merely increases the cost of doing business in Hawaii. Until these issues are addressed, no amount of tax incentives will improve the outlook for business and the jobs they create.

Digested 2/10/09

HAWAII BUILDING AND CONSTRUCTION TRADES COUNCIL, AFL-CIO
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February 10, 2010

Honorable Representative Angus L. K. McKelvey, Chair
Honorable Representative Issac W. Choy, Vice Chair
Members of the House Committee on Economic Revitalization, Business, and Military Affairs
Hawaii State Capital
415 South Beretania Street
Honolulu, HI 96813

RE: **IN SUPPORT OF HB 2558**
RELATING TO JOB CREATION
Hearing: Thurs., Feb. 11, 2010, 11:00 a.m., Room 312

Dear Chair McKelvey, Vice Chair Choy and the House Committee on Economic Revitalization, Business, and Military Affairs:

For the Record my name is Buzz Hong the Executive Director for the Hawaii Building & Construction Trades Council, AFL-CIO. Our Council is comprised of 16-construction unions and a membership of 26,000 statewide.

Our Council SUPPORTS the passage of HB 2558 that provides for a job creation income tax credit for each new full time employee hired during calendar years 2010, 2011, and 2012.

Thank you for the opportunity to submit this testimony in support of HB 2558.

Sincerely,

W. Hong/dg

William "Buzz" Hong
Executive Director

WBH/dg

HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
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The Twenty-Fifth Legislature, State of Hawaii
Hawaii State House of Representatives

Committee on Economic Revitalization & Military Affairs
Committee on Labor and Public Employment

Testimony by
Hawaii Government Employees Association
February 11, 2010

<u>H.B. 2558 – RELATING TO JOB CREATION</u>

The Hawaii Government Employees' Association, AFSCME Local 152, AFL-CIO opposes the purpose and intent of H.B. 2558 – Relating to Job Creation. This bill proposes to employ Hawaii residents and encourage economic growth by providing a tax credit for creating and maintaining new full-time positions in the workforce.

According to an economic letter issued by the Federal Reserve Bank of San Francisco in February 2009, there has been little economic research into how effective state job creation tax credits are in promoting net job creation. The justification sheet also does not estimate how many jobs will be created or what the tax credit will cost the state in lost revenue. The three-year time frame proposed in the bill may be too long. The job creation tax credit should be of limited duration to encourage job creation when the labor market is weakest and to limit the cost to the state.

With a projected $1.2 billion deficit, every existing state tax credit should be carefully examined before any new credits are created. Tax credits are government spending programs that are administered through the tax code. In theory, it does not matter whether state government uses direct spending through the budget or tax expenditure (credit) to achieve a policy goal.

However, each tax expenditure must compete with other state priorities when the legislature makes its budget decisions.

Thank you for the opportunity to testify in opposition to H.B. 2558.

Respectfully submitted,

Nora A. Nomura
Deputy Executive Director

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