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LATE TESTIMONY

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HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS & MILITARY AFFAIRS TESTIMONY REGARDING HB 2558 RELATING TO JOB CREATION

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

DATE: FEBRUARY 11, 2010

TIME: 11AM

ROOM: 312

This measure provides a nonrefundable income tax credit for employers that employ new permanent employees. The amount of the credit is based upon an amount derived by utilizing current income tax withholding procedures.

The Department of Taxation (Department) supports this measure.

JOB CREATION INCENTIVES ARE CRITICAL—The Department strongly supports the purpose of this legislation, which is to encourage Hawaii employers to hire persons currently unemployed to get Hawaii residents back to work. Hawaii's economy has been struggling for over a year and stimulus incentives targeted at getting people back to work should be a high policy priority. The Department is supportive of efforts such as this, which in turn will stimulate and then stabilize Hawaii's economy during the period of economic recovery.

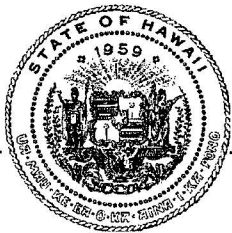
BOLD CREDIT AMOUNT ROUGHLY EQUAL TO THE EMPLOYEE'S TAXES TO BE PAID—The Department believes that the credit amount is particularly beneficial to employers. The amount of the credit is equal to the amount of taxes withheld based upon current income tax withholding procedures, taking into account one allowance. When a person is hired and fills out a Form W-4, they provide the employer with information about marital status and number of exemptions from tax to accurately calculate withholding. Because every employee's tax position is different (*i.e.*, an employee could pay considerable tax or very little tax depending upon external factors like deductions and exemptions unique to each person), this measure seeks to peg the credit amount based upon a hypothetical withholding amount allowing for one allowance, which represents the employee. This process allows for a maximum credit approximately equal to the state taxes that the person would likely be paying without taking into account other adjustments. Though an unorthodox means of calculating the credit, the Department respects its boldness and believes it will provide added value to the employer.

ONLY A CREDIT FOR INCREASED EMPLOYMENT AND NEW JOBS—The Department also supports that this measure provides a credit for increased employment of currently unemployed persons. The employer does not get a credit for planned hires and only gets the credit for those who are unemployed. In short, this measure ensures that hires for which a credit may be claimed must be new jobs and people without jobs.

NONREFUNDABLE CREDIT ENCOURAGES STRONG BUSINESSES—The Department also supports that this measure provides a nonrefundable credit. As a nonrefundable credit, it encourages businesses to be profitable in order to capitalize on the credit, which are the types of business that should be encouraged.

COMMITMENT TO SUBSTANTIAL HAWAII OPERATIONS—The Department also supports that this measure requires the businesses receiving this credit to make a commitment to Hawaii's economy. This measure requires that a business claiming the credit must maintain substantial operations for at least 2 years after the business' receipt of credits. This provision provides the State with certainty that its investment in these businesses by means of this tax credit will provide a return because the business will not be able to close up shop without some recourse through recaptured credits.

COST—The Department defers to the revenue impact prepared by the Department of Business, Economic Development & Tourism.



DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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LATE TESTIMONY

Comments of
EUGENE TIAN

Acting Economics Research Administrator

Department of Business, Economic Development, and Tourism
before the

**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS & MILITARY
AFFAIRS**

and

HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT

Thursday, February 11, 2010

11:00 a.m.

State Capitol, Conference Room 312
in consideration of

**HB 2558
RELATING TO JOB CREATION**

Chair McKelvey, Chair Rhoads, and Members of the respective committees.

The Department of Business, Economic Development and Tourism supports HB 2558, an administration measure, which provides an income tax credit 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 currently receiving unemployment insurance benefits or eligible to receive such benefits.

We support this bill for two reasons. First, as a result of lower labor costs, this bill could encourage business firms to hire more workers from the ranks of the unemployed. That will help stabilize and improve Hawaii's currently high unemployment level. Secondly, DBEDT calculations indicate that the net state revenue impact will be positive. This is primarily because the savings in unemployment insurance special funds and the increase in state taxes due to the added employment will offset the cost of the tax credit.

Thank you for the opportunity to offer these comments.