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LATE TESTIMONY

HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 983 RELATING TO THE HAWAII STRATEGIC DEVELOPMENT CORPORATION

TESTIFIER:	**FREDERICK D. PABLO, INTERIM DIRECTOR OF TAXATION (OR DESIGNEE)**
COMMITTEE:	**ERB**
DATE:	**FEBRUARY 8, 2011**
TIME:	**8AM**
POSITION:	**OPPOSED TO TRANSFERABLE CREDITS AND REVENUE LOSS**

This measure, among other things, funds the State private investment fund to allow transferability of tax credits.

The Department of Taxation ("Department") **opposes the subsequent credit transfer provisions; as well as any anticipated revenue loss** anticipated by this measure.

I. THE DEPARTMENT OPPOSES TRANSFERS OF CREDIT IN A SECONDARY MARKET.

The Department is strongly opposed to any provision that allows Hawaii tax credits to be sold, assigned, or transferred from one taxpayer to another. Allowing taxpayers to market or sell their tax credits is fundamentally poor tax policy. Selling tax credits can be subject to abuse and suspect motivation by parties involved.

The Department's fundamental and primary concerns regarding credit transfers are the following:

- The transferability rewards a separate taxpayer unrelated to the taxpayer that generated the credit, which is fundamentally poor tax policy for encouraging behavior and directly rewarding that behavior;

- The Department is not setup to regulate credit transfers. Will the Department be required to establish a "Bureau of Credit Conveyances" in order to track transfers? If this is the case, resources will have to be dedicated to this;

- Abuse relating tax credit transfer prices will be problematic. The State will be out a $1 when taxpayers will be transferring this $1 for pennies;

- And, there will be problems on audit. The taxpayer being audited may have sold the credit to another taxpayer. It is also unclear whether the tax credit is refundable or nonrefundable.

II. ANTICIPATED REVENUE LOSS

There is no immediate revenue impact.

Revenue loss is projected to occur in FY 2013, when this measure first allows for tax credit utilization. The measure has the potential to reduce tax revenues by $20 million per year.