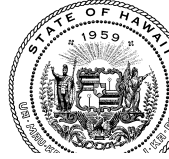


DAVID Y. IGE
GOVERNOR

SHANTSUTSUI
LT. GOVERNOR



MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

JOSEPH K. KIM
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION

P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Gilbert S.C. Keith-Agaran, Chair
And Members of the Senate Committee on Judiciary and Labor

The Honorable Rosalyn H. Baker, Chair
And Members of the Senate Committee on Commerce, Consumer Protection, and Health

Date: February 12, 2016
Time: 9:30 A.M.
Place: Conference Room 016, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 2219, Relating to Taxation.

The Department of Taxation (Department) appreciates the intent of S.B. 2219 and offers following comments for your consideration.

S.B. 2219 creates an income tax credit for businesses that hire individuals with a disability. The bill requires certification of disability from a qualified physician. The credit is to be claimed against the taxpayer's net income tax liability. The credit is effective for taxable years beginning after December 31, 2016.

First, the Department notes that the proposed credit is similar to an existing credit at section 235-55.91, Hawaii Revised Statutes (HRS). That credit is equal to twenty per cent of wages paid to vocational rehabilitation referrals during the first year of employment. To qualify for this credit, the employer must hire a person with a physical or mental disability who was referred to the employer by the Department of Human Services Vocational Rehabilitation and Services for the Blind Division.

Second, the Department notes that the wages allowed as the base of this credit are also allowed as a deduction to the employer. Thus, the employer would be provided a double tax benefit; the employer could claim both a deduction and a tax credit for the same amount expended.

The Department recommends adding a provision to disallow the tax deduction for any amounts used to calculate the tax credit.

Third, the Department suggests that subsection (d) be amended to clarify that the Department may disqualify wages paid to a non-qualified employee without the employer receiving notice that certification was based on false information provided by the employee. This is consistent with general tax compliance policy that the Department has the authority to make the final administrative determination on title 14, HRS, matters.

Fourth, the Department notes that the bill does not specify whether the tax credit can be claimed by succeeding employers of the individual with a disability or by subsidiaries of the original employer, which could result in multiple tax credits being claimed for hiring of the same employee. Subsection (f) addresses the possibility that a successor employer might hire the same employee, but does not clarify which of the taxpayers may claim the credit, nor proscribe the credit from being claimed multiple times for the hiring of the same employee.

Fifth, the Department suggests deleting the definition of "individual with a disability," and amending the credit to apply to the hiring of "persons totally disabled" rather than "individuals with a disability." The term "person totally disabled" is already defined for Hawaii income tax purposes under section 235-1, HRS, the Department has already promulgated administrative rules clarifying the term, and forms have already been created for the certification of a disability under this definition.

Lastly, the Department requests that, if S.B. 2219 is adopted, the effective date is extended to taxable years beginning after December 31, 2017, to allow the Department time to complete the necessary form and computer system changes to implement this measure.

Thank you for the opportunity to provide comments.



STATE OF HAWAII
STATE COUNCIL
ON DEVELOPMENTAL DISABILITIES
919 ALA MOANA BOULEVARD, ROOM 113
HONOLULU, HAWAII 96814
TELEPHONE: (808) 586-8100 FAX: (808) 586-7543
February 12, 2016

The Honorable Gilbert S.C. Keith-Agaran, Chair
Senate Committee on Judiciary and Labor
and

The Honorable Rosalyn H. Baker, Chair
Senate Committee on Commerce, Consumer Protection,
and Health
Twenty-Eighth Legislature
State Capitol
State of Hawaii
Honolulu, Hawaii 96813

Dear Senator Keith-Agaran, Senator Baker, and Members of the Committees:

SUBJECT: SB 2219 - Relating to Taxation

The State Council on Developmental Disabilities **SUPPORTS SB 2219**. The bill provides a taxpayer who hires an individual who has a disability a non-refundable tax credit for the six-month period the individual is initially hired by the taxpayer.

Employment of individuals with intellectual and developmental disabilities (I/DD) is a means toward economic self-sufficiency, contributing to their communities as tax paying citizens, establishing relationships and social networking. Employment of people with I/DD is a priority for the Council and is reflected in our 2012-2016 State Plan Employment Goal that states "People with I/DD will have supports to obtain and sustain their chosen life goal to prepare students at all educational levels for the transition from high school to adult life, including employment, self-employment, and/or post-secondary education and training."

SB 2219 represents one component of providing employment opportunities of hiring people with disabilities. Another component includes educating and training private and public employers about accommodating people with disabilities in the workforce and the benefits of this. Both of these components combined would have a positive impact in increasing employment opportunities, as well as meeting the workforce demands of the private and public sectors.

The Council appreciates the Legislature's initiative to provide incentives, such as tax credits for hiring people with disabilities.

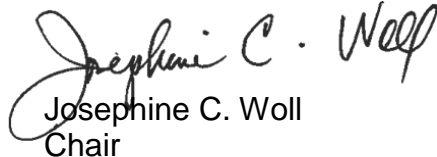
The Honorable Gilbert S.C. Keith-Agaran
The Honorable Rosalyn H. Baker
Page 2
February 12, 2016

Thank you for the opportunity to submit testimony in **support of SB 2219.**

Sincerely,

A handwritten signature in black ink, appearing to read "Waynette K.Y. Cabral". The signature is fluid and cursive, with the first name being the most prominent.

Waynette K.Y. Cabral, MSW
Executive Administrator

A handwritten signature in black ink, appearing to read "Josephine C. Woll". The signature is cursive, with the first name being the most prominent.

Josephine C. Woll
Chair

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Credit for Hiring an Individual with a disability

BILL NUMBER: SB 2219; HB 1870 (Identical)

INTRODUCED BY: SB by KOUCHI; HB by KAWAKAMI, AQUINO, CULLEN,
MORIKAWA, NAKASHIMA, TOKIOKA

EXECUTIVE SUMMARY: Establishes an income tax credit for the hiring of an individual with a disability of 50% of the wages paid to such individual for the first six months. The adoption of this credit would provide tax relief to taxpayers regardless of their need for tax relief. It also would shift the burden of paying for government to the rest of us.

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow employers to claim an income tax credit for the hiring of an individual with a disability equal to 50% of the qualified wages for the first six months after the individual is hired.

Tax credits that exceed the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted. In no taxable year shall the total amount of tax credits claimed under this section exceed \$ _____.

Defines "individual with a disability" as having a physical or intellectual impairment that substantially limits one or more major life activities, having a record of that impairment, or being regarded as having that impairment provided that the disabling impairment is certified by a qualified physician.

Requires the director of taxation to prepare any forms necessary to claim a credit, may require a taxpayer to furnish reasonable information in order to validate a claim for the credit, and adopt rules pursuant to HRS chapter 91. Requires claims for the credit, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit is claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

Defines "wages" so as not to count income excluded from gross income (pension income, for example). Provides that no wages shall be taken into account under this section with respect to any elderly individual if, prior to the day the individual is hired by the employer, the individual had been employed by the employer at any time.

If the taxpayer is a successor employer referred to in section 3306(b)(1) of the Internal Revenue Code, the determination of the amount of the credit shall be made in the same manner as if the wages were paid by the predecessor employer.

Requires the director of taxation to prepare any forms necessary to claim a credit, may require a taxpayer to furnish reasonable information in order to validate a claim for the credit, and adopt rules pursuant to HRS chapter 91. Requires claims for the credit, including any amended claims,

to be filed on or before the end of the twelfth month following the taxable year for which the credit is claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

EFFECTIVE DATE: Applies to taxable years beginning after December 31, 2016.

STAFF COMMENTS: This measure is proposed as an incentive to entice employers to hire an individual who is physically or intellectually disabled, but the tax system is a poor means of achieving such social goals. Providing such credits against the state income tax merely reduces state revenues, and if the size of government does not go down, then the tax burden shifts to other taxpayers who are not able to claim the credit.

The employee becomes credit eligible upon receiving a doctor's certification of a disability, defined as a "physical or intellectual impairment that substantially limits one or more major life activities." Those criteria would appear to allow qualification of a temporary impairment, such as someone who has a back strain and has to stay in bed for a couple of days.

The measure is similar to the income tax credit for the hiring of vocational rehabilitation referrals. If it is the intent of the legislature to encourage the hiring of individuals with a disability, it would be preferable to amend HRS-235-55.91 to include these individuals rather than to adopt a new credit which may have loopholes and technical issues.

Digested 2/4/16



HAWAII RESTAURANT ASSOCIATION

2909 Waialae Avenue #22 Honolulu, Hawaii 96826

Office: (808)944-9105 Fax: (808)441-5355

info@hawaiirestaurant.org www.hawaiirestaurant.org

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Date: February 10, 2016

To: Sen. Gilbert S.C. Keith-Agaran, Chair; Sen. Maile S.L. Shimabukuro, Vice Chair
Committee on Judiciary and Labor

Sen. Rosalyn H. Baker, Chair; Senator Michelle N. Kidani, vice Chair
Committee on Commerce, Consumer Protection, and Health

From: Victor Lim, Legislative Chair, Hawaii Restaurant Association

Subj: SB 2219 Tax Credit for Hiring Person with Disability

The Hawaii Restaurant strongly support SB 2219 that provides a taxpayer who hires an individual with disability a tax credit for the six-month period after the individual is initially hired by the tax payer.

HRA has been serving the restaurant industry here in Hawaii for 69 years representing over 3,300 restaurants, making up mostly of small and medium size businesses. We are in most cases the first employer for many entering the work force and at the same time provide tremendous opportunities for individual growth.

HRA members already offer opportunities for many individuals with disability in our industry and this bill will further encourage even more being done. This is a Win Win for our community providing all individuals with dignity and being productive members in our workforce.

Thank you for giving us the opportunity to testify on this.

Gregg Fraser,
Executive Director
Hawaii Restaurant Association

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 09, 2016 10:40 PM
To: JDLTestimony
Cc:
Subject: *Submitted testimony for SB2219 on Feb 12, 2016 09:30AM*

SB2219

Submitted on: 2/9/2016

Testimony for JDL/CPH on Feb 12, 2016 09:30AM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Rachel L. Kailianu	Individual	Support	Yes

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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