

STAND. COM. REP. NO. 341 -22

Honolulu, Hawaii

FEB 15 , 2022

RE: H.B. No. 2107
H.D. 1

Honorable Scott K. Saiki
Speaker, House of Representatives
Thirty-First State Legislature
Regular Session of 2022
State of Hawaii

Sir:

Your Committee on Consumer Protection & Commerce, to which was referred H.B. No. 2107 entitled:

"A BILL FOR AN ACT RELATING TO FRANCHISE TAX,"

begs leave to report as follows:

The purpose of this measure is to resolve certain payment issues related to franchise tax collections deposited into the Compliance Resolution fund by:

- (1) Ensuring that the statutorily-mandated \$2,000,000 franchise tax payment is credited in full to the Compliance Resolution Fund for use by the Division of Financial Institutions; and
- (2) Specifying that if franchise tax collections are insufficient, income tax collections will be used to ensure \$2,000,000 is deposited into the Compliance Resolution Fund.

Your Committee received testimony in support of this measure from Department of Taxation, Department of Commerce and Consumer Affairs, and Hawaii Bankers Association. Your Committee received comments on this measure from the Tax Foundation of Hawaii.



Your Committee finds that the Division of Financial Institutions of the Department of Commerce and Consumer Affairs (DFI) has relied on a dedicated portion of the franchise tax revenues to help maintain its financial self-sufficiency and support its purpose to effectively license, supervise, and regulate the constantly changing and complex financial institutions within its jurisdiction.

Your Committee further finds that each fiscal year, \$2,000,000 of franchise tax collections is deposited to the credit of the Compliance Resolution Fund for use by DFI. However, there have been situations where the payment of franchise tax revenues was delayed from one fiscal year to the succeeding fiscal year. This has the potential to delay payments or the ability to enter into contracts, which creates an aura of uncertainty in DFI, or interfere with its purpose and functions.

This measure resolves payment timing issues related to franchise tax collections by ensuring that the \$2,000,000 payment provided for under the franchise tax law is credited in full to the Compliance Resolution Fund for use by DFI. This measure also specifies that, if franchise tax collections are insufficient, income tax collections will be used to ensure \$2,000,000 is deposited into the Compliance Resolution Fund.

Your Committee notes that concerns were raised in testimony that portions of this measure may exceed its single-subject title. Should your Committee on Finance choose to deliberate on this measure, your Committee respectfully requests that it consider these concerns.

Your Committee has amended this measure by:

- (1) Clarifying that the transfer of franchise tax revenues into the Compliance Resolution Fund shall occur by June 30 of the same fiscal year;
- (2) Removing redundant language authorizing the transfer of income tax revenues to supplement franchise tax revenues, if needed, to reach the necessary \$2,000,000 to fund the Division of Financial Institutions;
- (3) Changing the effective date to January 1, 2050, to encourage further discussion; and



- (4) Making technical, nonsubstantive amendments for the purposes of clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Consumer Protection & Commerce that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2107, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2107, H.D. 1, and be referred to your Committee on Finance.

Respectfully submitted on
behalf of the members of the
Committee on Consumer
Protection & Commerce,



AARON LING JOHANSON, Chair



