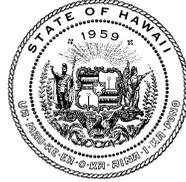


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Jarrett Keohokalole, Chair
and Members of the Senate/House Committee on Health

From: Isaac W. Choy, Director
Department of Taxation

Date: Friday, January 28, 2022
Time: 1:00 P.M.
Place: Via Video Conference, State Capitol

Re: S.B. 2754, Relating to Taxation

The Department of Taxation (Department) offers the following comments regarding S.B. 2754 for your consideration.

S.B. 2754 establishes a blood donation income tax credit of an unspecified amount to promote blood donations throughout the State and thus address historic blood shortages experienced by the Blood Bank of Hawaii during the COVID-19 pandemic. S.B. 2754 applies to taxable years after December 31, 2021.

First, the Department notes that the proposed credit is refundable. As a general matter, the Department prefers nonrefundable credits because refundable credits create a higher potential for improper claims and abuse. The Department therefore recommends that this credit be made non-refundable.

Second, as currently written, the measure allows the Department to require proof of the claim for the tax credit for blood donation. The Department suggests amending the credit to also require the blood bank at which the donation is made to issue written documentation of the type of donation that was made. This amendment will simply the examination process in the event that a taxpayer claiming this new credit is selected for review.

Finally, the Department respectfully requests that the effective date of this new tax credit be amended to taxable years after December 31, 2022. This will provide the Department time to make the necessary forms, instructions, and computer system changes.

Thank you for the opportunity to provide comments on this measure.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax Credit to Promote Frequent Blood Donations

BILL NUMBER: SB 2753

INTRODUCED BY: INOUYE, CHANG, GABBARD, Kidani, San Buenaventura, Wakai

EXECUTIVE SUMMARY: Creates a blood donation income tax credit to promote frequent blood donations. Our view is that if the amounts being considered are modest, the tax system should not be used. An appropriate agency such as the Department of Health can issue checks to the donors directly.

SYNOPSIS: Adds a new section to chapter 235, HRS, to allow a tax credit for blood donations. The tax credit shall be \$___ if the taxpayer makes four or more donations through a blood bank in the State during the taxable year. One whole blood donation, platelet donation, or plasma donation counts as one blood donation, and one double red cell donation counts as two blood donations. The credit is refundable.

Claims for the tax credit, including any amended claims, shall be filed on or before the end of the twelfth month following the taxable year for which the credit may be claimed. Failure to comply shall constitute a waiver of the right to claim the credit.

EFFECTIVE DATE: Applies to taxable years beginning after December 31, 2021.

STAFF COMMENTS: The tax system is there to raise revenue to keep the government moving. Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount.

Furthermore, tax credits are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as generous about the expenditure of these funds when our kids are roasting in the public school classrooms, there isn't enough money for social service programs, or our state hospitals are on the verge of collapse, overtaxed by the pandemic?

It is not possible to tell from this measure, with the blank amounts in it, how much of a tax credit is being considered here. If the amount per donation is relatively modest, perhaps less than \$100, then there is no reason to get the tax system and all its complexities involved.

If lawmakers want to subsidize this activity, then a direct appropriation would be more accountable and transparent. That way lawmakers will be very clear on (1) how much we taxpayers are paying, and (2) what we are getting in return. An appropriate agency such as the Department of Health can issue checks to the donors directly.

Digested: 1/27/2022

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE**

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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY
TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON HEALTH
ON
SENATE BILL NO. 2754

**January 28, 2022
1:00 p.m.
Via Videoconference**

RELATING TO TAXATION

The Department of Budget and Finance (B&F) offers comments on this bill.

Senate Bill No. 2754 establishes a refundable income tax credit of an unspecified amount for taxpayers who make four or more blood donations through a blood bank in the State during a taxable year.

B&F notes that the federal American Rescue Plan (ARP) Act restricts states from using ARP Coronavirus State Fiscal Recovery Funds (CSFRF) to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation beginning on March 3, 2021, through the last day of the fiscal year in which the CSFRF have been spent. If a state cuts taxes during this period, it must demonstrate how it paid for the tax cuts from sources other than the CSFRF, such as:

- By enacting policies to raise other sources of revenue;
- By cutting spending; or
- Through higher revenue due to economic growth.

If the CSFRF provided have been used to offset tax cuts, the amount used for this purpose must be repaid to the U.S. Treasury.

The U.S. Department of Treasury has issued rules governing how this restriction is to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai'i complies with this ARP restriction.

Thank you for your consideration of our comments.