

STAND. COM. REP. NO.

3014

Honolulu, Hawaii

MAR 19 2008

RE: H.B. No. 3191
H.D. 1
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2008
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred H.B. No. 3191, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO CONFORMITY OF THE HAWAII INCOME TAX LAW TO THE INTERNAL REVENUE CODE,"

begs leave to report as follows:

The purpose of this measure is to amend Hawaii's income tax laws to conform to changes in the federal Internal Revenue Code.

Testimony in support of this measure was submitted by the Department of Taxation. Comments on this measure were submitted by the Tax Foundation of Hawaii.

Your Committee finds that, to promote tax simplicity, it is a long recognized policy of the State to conform its own income tax definitions and determination of gross income to the income tax laws of the Internal Revenue Code. Conformity of the Hawaii income tax laws to the Internal Revenue Code assists the Department of Taxation to efficiently administer the reporting of gross income by Hawaii's taxpayers in an accurate manner.

Your Committee received a fiscal impact statement from the Department of Taxation that this measure, as introduced, would result in an annual revenue loss to the State of approximately \$506,000. Their methodology is as follows:



The Mortgage Forgiveness Debt Relief Act of 2007 would be responsible for \$473,000 of the annual losses and The Small Business and Work Opportunity Tax Act of 2007 would be responsible for \$33,000 of the annual losses. The revenue impact resulted from a revenue estimate developed by Congress' Joint Committee on Taxation that was adjusted three times to get a revenue impact on the State of Hawaii. The first adjustment reflected Hawaii's economy being equal to one-half of one per cent of the U.S. Gross Domestic Product. The second adjustment accounted for the difference between the federal and Hawaii effective tax rates. It assumed the Hawaii effective tax rate as being equal to twenty-five per cent of the federal individual income tax rate and eighteen per cent of the federal corporate tax rate. The third adjustment accounted for the difference in fiscal years. The federal fiscal year ends on September 30th, while the Hawaii fiscal year ends on June 30th. This revenue impact was based upon annual tax rates that are estimated for fiscal year 2008.

Your Committee has amended this measure by:

- (1) Changing the maximum deduction under section 179 (with respect to the election to expense certain depreciable business assets) of the Internal Revenue Code to apply to taxable years beginning after 2007;
- (2) Adding and amending section 235-2.5(a)(3), Hawaii Revised Statutes, to include prospective provisions for federal public laws that amend sections of the Internal Revenue Code;
- (3) Deleting the reference to Congressional Acts in the Internal Revenue Code being operative for Hawaii Income tax purposes in the effective date section of this measure; and
- (4) Making a technical, nonsubstantive change for the purpose of clarity.

As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 3191, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 3191, H.D. 1, S.D. 1, and be referred to the Committee on Ways and Means.



Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Taxation,



CAROL FUKUNAGA, Chair



The Senate
Twenty-Fourth Legislature
State of Hawaii

Record of Votes
Committee on Economic Development and Taxation
EDT

Bill / Resolution No.:* <i>HB 3191, HDI</i>	Committee Referral: <i>EDT, WAM</i>	Date: <i>3/13/08</i>		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
FUKUNAGA, Carol (C)	✓			
ESPERO, Will (VC)	✓			
BAKER, Rosalyn H.	✓			
ENGLISH, J. Kalani				✓
IGE, David Y.				✓
SLOM, Sam		✓		
TOTAL	<i>3</i>	<i>1</i>		<i>2</i>
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: <i>Will Espero</i>				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes