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December 21, 2011

Mr. Randall Y. Iwase
Chair, Tax Review Commission
PO Box 259
Honolulu, HI 96809

Dear Chair Iwase:

This letter responds to the request for more information during the briefing to the Tax Review Commission on October 31, 2011.

Please find attached the following information –

1. Federal poverty level
2. Individual income tax data
3. Comparison of various taxes across States
4. Accounts receivable data
5. Who pays Hawaii's taxes?
6. Estimated general excise tax from sales of food and non-prescription drugs

Please feel free to contact Donald Rousslang, Acting Tax Research and Planning Officer, at 587-1572 or Johnnel Nakamura, Rules Officer, at 587-1553 if you have any further questions.

Sincerely,

A handwritten signature in black ink that reads "Frederick D. Pablo". The signature is written in a cursive style.

Frederick D. Pablo
Director of Taxation

Enclosures

Tax Review Commission

Follow-Up Questions to the Presentation on “Overview of Hawaii Taxes”

POVERTY LEVEL

According to the 2011 U. S. Department of Health and Human Services Poverty Guidelines, the poverty level for a single person in Hawaii is \$12,540 and for a family of four in Hawaii is \$25,710 as compared to the poverty level for a single person in 48 contiguous States and D.C. at \$10,890 and for a family of four at \$22,350.

Persons in Family	48 Contiguous States and D.C.	Alaska	Hawaii
1	\$10,890	\$13,600	\$12,540
2	14,710	18,380	16,930
3	18,530	23,160	21,320
4	22,350	27,940	25,710
5	26,170	32,720	30,100
6	29,990	37,500	34,490
7	33,810	42,280	38,880
8	37,630	47,060	43,270
For each additional person, add	3,820	4,780	4,390

INDIVIDUAL INCOME TAX DATA

Preliminary data for tax year 2009 is the most recent individual income tax data available. The data is derived from Hawaii resident tax returns filed on Form N-11 (Individual Income Tax Return – Resident) only and is reflected in Figures 1-A through 1-C.

Figure 1-A shows the number of tax returns grouped in brackets of \$50,000, up to \$500,000 of Hawaii Adjusted Gross Income (“AGI”). The total number of N-11 tax returns filed for tax year 2009 is 560,875. Of the total number of N-11 tax returns filed for tax year 2009: 69.2% reported Hawaii AGI of less than \$50,000; 29.6% reported Hawaii AGI of \$50,000 to \$250,000; and 1.2% reported Hawaii AGI over \$250,000.

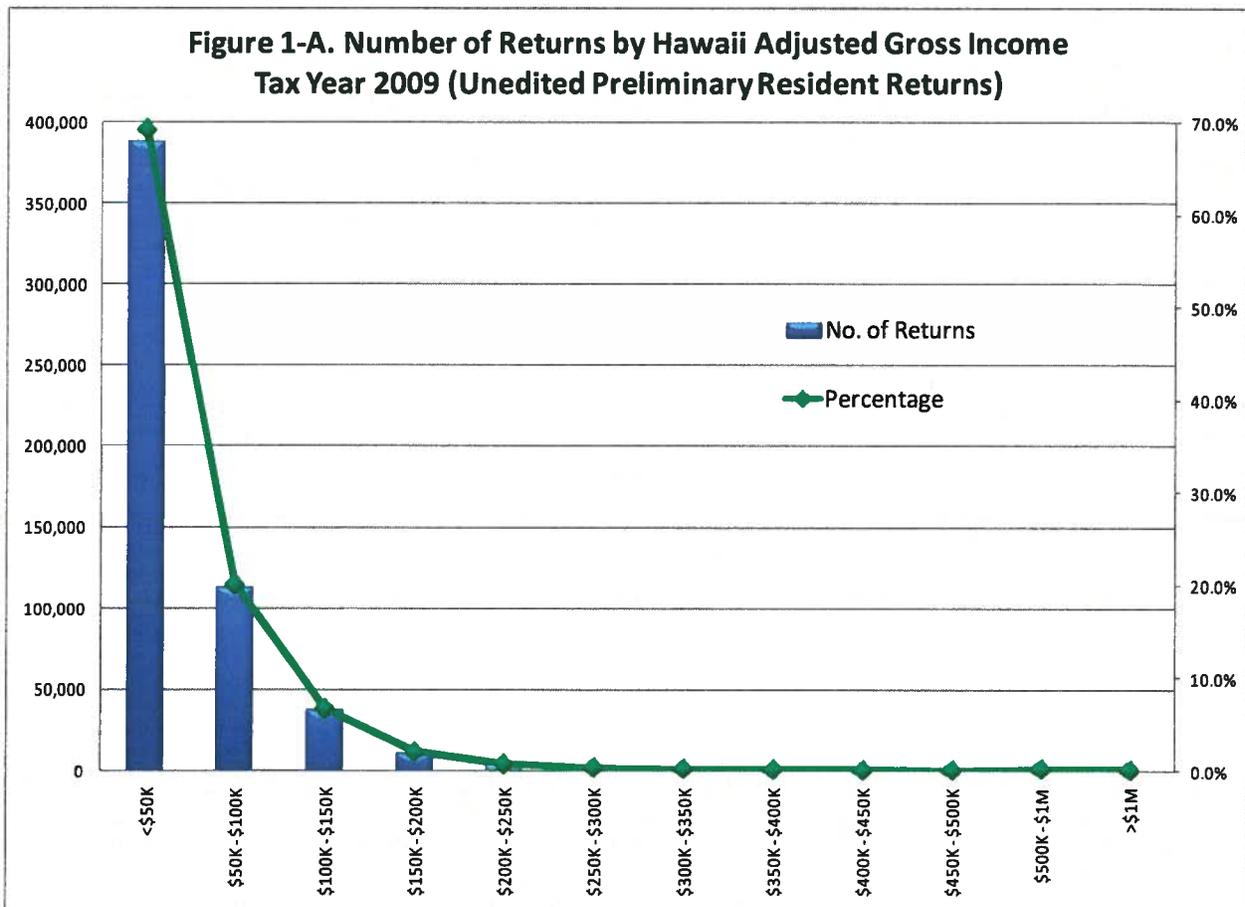


Figure 1-B shows the amount of Hawaii AGI grouped in brackets of \$50,000, up to \$500,000. Taking into account the total of all Hawaii AGI reported on Form N-11 only, taxpayers making under \$50,000 account for 25.3% of the total taxable income; taxpayers with Hawaii AGI between \$50,000 to \$250,000, account for 57.8% of the total taxable income; and taxpayers with Hawaii AGI over \$250,000 account for 16.9% of the total.

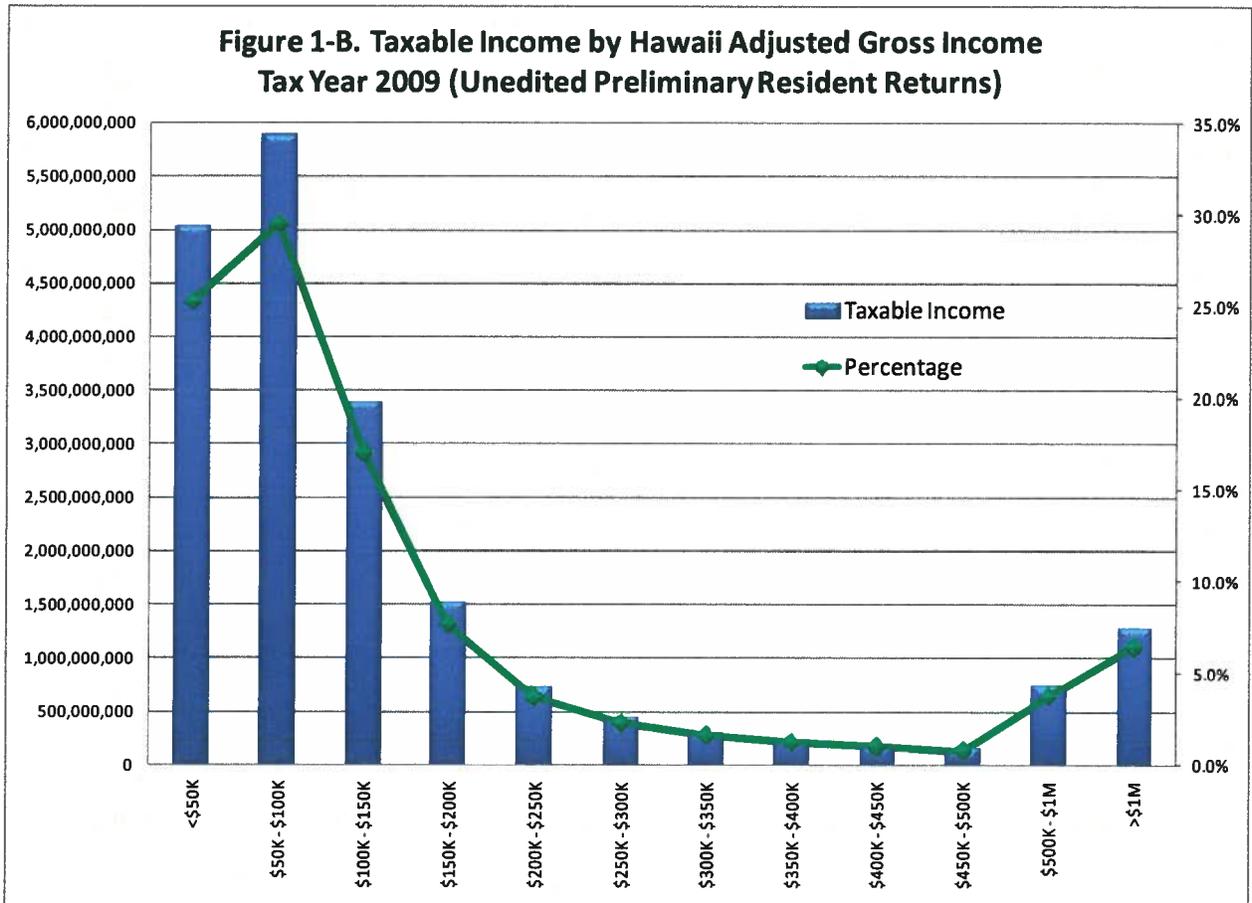
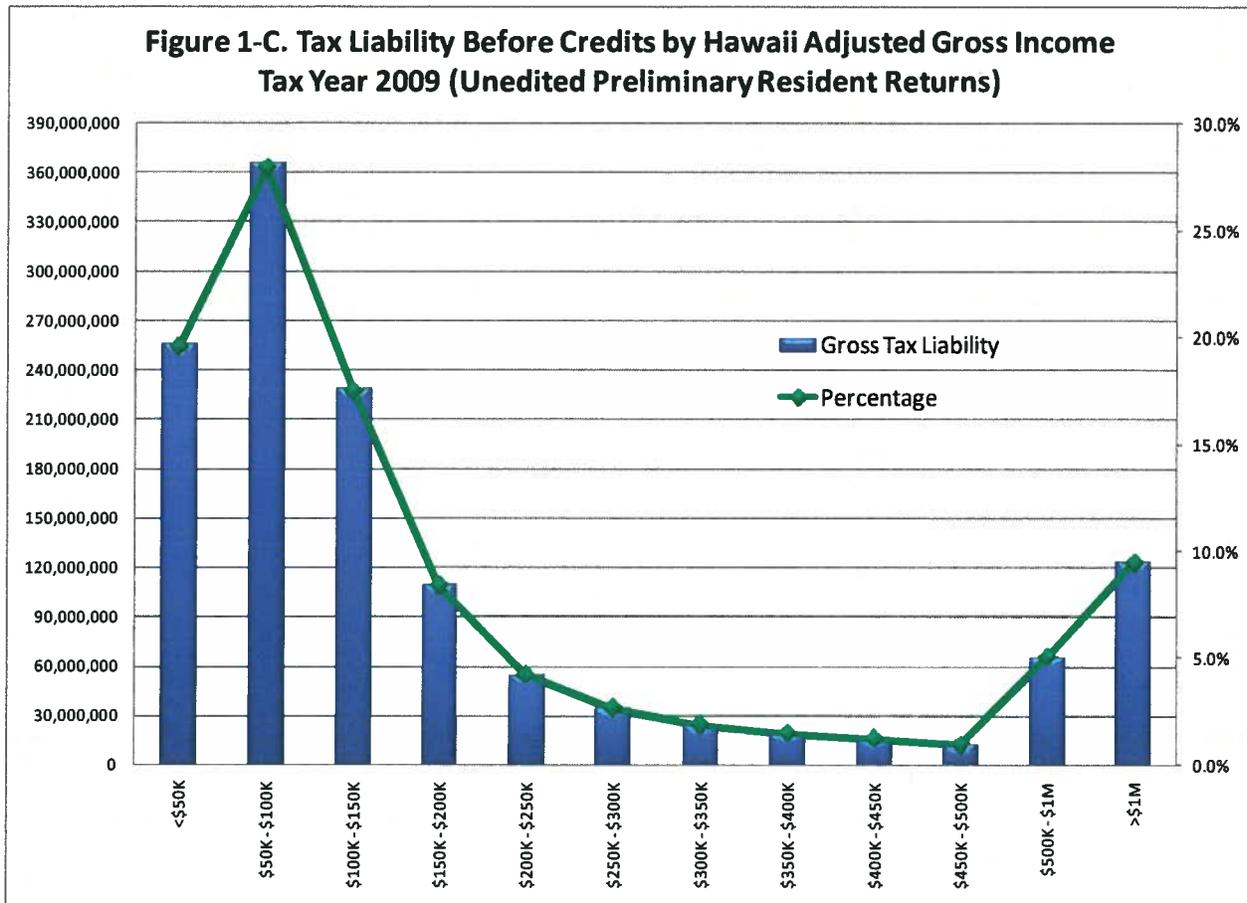


Figure 1-C reflects the distribution of tax liability of Form N-11 taxpayers, before tax credits, by Hawaii AGI. Taxpayers with Hawaii AGI under \$50,000, accounted for 19.5% of the total N-11 tax liability; taxpayers with Hawaii AGI between \$50,000 and \$250,000, accounted for 57.9% of the total N-11 tax liability; and taxpayers over \$250,000, paid 2.6% of the total N-11 tax liability.



The table below summarizes the data presented in Figure 1A, 1B, and 1C.

AGI	% of Total Number of Returns	% of Taxable Income	% of Tax Liability Before Credits
Under \$50,000	69.2%	25.3%	19.5%
\$50,000 - \$250,000	29.6%	57.8%	57.9%
Over \$250,000	1.2%	16.9%	22.6%
Total	100.0%	100.0%	100.0%

COMPARISON OF VARIOUS TAXES ACROSS STATES

Table 1 - Comparison of State Taxes										
State	Tax Rates (in %)				Revenue From Each Tax as % of Total State & Local Tax Revenues			Taxes as % of Total Revenue	Sales Tax Base as % of GSP 5/	State & Local Tax Per Capita 6/
	Sales & Use Tax 1/	Individual Income 2/	Corporate Income 1/	Property 3/	4/					
					Sales Tax	Inc. Taxes	Prop. Tax			
Alabama	4.00	2.0-5.0	6.50	0.65	47.74	26.48	15.51	57.4	35.79	3,002
Alaska	0.00	na	1.0-9.4	1.80	9.92	16.46	20.89	47.4	na	14,147
Arizona	6.50-6.60	2.59-4.54	6.97	1.21	48.46	20.25	26.68	71.6	40.98	3,538
Arkansas	6.00	1.0-7.0	1.0-6.5	0.88	53.23	27.55	14.63	69.7	50.71	3,280
California	8.25	1.0-10.3	8.84	0.68	31.32	37.35	24.12	68.0	29.08	5,085
Colorado	2.90	4.63	4.63	1.08	35.35	28.34	30.41	62.8	32.69	3,979
Con.	6.00	3.0-6.5	7.50	1.72	23.53	33.95	38.24	81.6	28.57	6,599
Delaware	0.00	2.2-6.95	8.70	0.68	12.72	37.63	15.51	57.4	na	4,237
Florida	6.00	na	5.50	1.20	48.86	3.34	36.72	65.9	47.83	3,981
Georgia	4.00	1.0-6.0	6.00	1.52	38.51	29.58	28.70	68.3	35.96	3,469
Hawaii	0.15-4.00	1.4-11.0	4.4-6.4	0.40	51.84	25.24	17.33	73.3	90.03	5,233
Idaho	6.00	1.6-7.8	7.60	1.42	35.68	33.49	23.32	63.9	39.72	3,234
Illinois	6.25	5.00	7.30	1.79	33.83	22.51	37.06	74.2	21.71	4,503
Indiana	7.00	3.40	8.50	2.12	37.20	29.41	29.09	62.9	34.57	3,593
Iowa	6.00	0.36-8.98	6.0-12.0	2.15	31.60	27.96	33.02	63.3	29.35	3,855
Kansas	6.30	3.5-6.45	4.0-7.1	2.09	35.35	28.87	30.42	71.0	36.87	4,246
Kentucky	6.00	2.0-6.0	4.0-7.0	0.96	37.08	37.67	18.91	67.7	36.28	3,302
Louisiana	4.00	2.0-6.0	4.0-8.0	1.02	53.12	22.55	14.84	67.4	46.35	4,032
Maine	5.0-10.0	2.0-9.5	3.5-8.93	1.75	30.04	27.43	36.49	72.9	42.41	4,496
Maryland	6.00	2.0-5.5	7.00	1.06	23.45	42.56	24.24	75.9	32.40	4,887
Mass.	6.25	5.30	0.10	1.07	19.17	42.07	34.34	72.5	23.94	5,196
Michigan	6.00	4.35	4.90	1.91	32.07	23.38	39.18	63.3	35.42	3,764
Minn.	6.875	5.35-7.85	9.80	1.27	31.84	35.59	25.79	69.4	35.29	4,727
Mississippi	7.00	3.0-5.0	3.0-5.0	1.44	47.92	20.35	25.32	62.4	46.08	3,233
Missouri	4.225	1.5-6.0	6.25	1.42	37.65	28.92	27.41	66.4	33.92	3,336
Montana	0.00	1.0-6.9	6.75-7.0	1.65	16.40	30.91	33.91	63.4	na	3,582
Nebraska	5.00	2.56-6.84	5.58-7.81	2.15	32.37	26.11	33.44	65.5	40.59	4,213
Nevada	2.00	na	na	0.83	58.24	na	27.50	68.0	35.14	4,048
New Hamp.	0.00	5.00	8.50	2.21	15.48	14.76	61.36	69.1	na	3,754

Table 1 - Comparison of State Taxes (Continue)

State	Tax Rates (in %)				Revenue From Each Tax as % of Total State & Local Tax Revenues 4/			Taxes as % of Total Revenue	Sales Tax Base as % of GSP 5/	State & Local Tax Per Capita 6/
	Sales & Use Tax 1/	Individual Income 2/	Corporate Income 1/	Property 3/	Sales Tax	Inc. Taxes	Prop. Tax			
	New Jersey	7.00	1.4-8.97	6.5-9.0	1.78	23.90	28.44	41.69	77.0	25.44
New Mex.	5.00	1.7-4.9	4.8-7.6	0.72	46.90	21.94	13.51	62.9	49.39	3,899
New York	4.00	4.0-8.97	6.5-7.1	1.76	24.24	41.06	28.48	75.5	24.86	7,103
N. Carolina	5.75	6.0-7.75	6.90	1.10	34.07	37.48	22.52	67.5	29.85	3,591
N. Dakota	5.00	1.84-4.86	2.1-6.4	1.84	35.09	17.47	26.89	64.7	39.06	4,948
Ohio	5.50	5.587-5.925	na	1.81	31.20	32.51	29.03	68.9	31.97	4,048
Oklahoma	4.50	0.5-5.5	6.00	1.03	38.12	27.93	16.20	64.8	32.16	3,379
Oregon	0.00	5.0-11.0	6.6-7.6	1.22	8.65	47.75	31.11	60.1	na	3,313
Penn.	6.00	3.07	5.00	1.70	28.63	29.91	29.63	70.2	27.94	4,306
Rhode Isl.	7.00	3.75-5.99	9.00	1.52	28.67	26.43	40.98	71.5	27.56	4,626
S. Carolina	6.00	3.0-7.0	5.00	1.38	35.33	25.83	31.11	56.9	41.80	2,923
S. Dakota	4.00	na	0.5-1.0	1.96	54.04	3.26	34.32	64.4	44.36	3,107
Tennessee	5.5-7.0	6.00	5.00	1.07	56.82	7.38	24.24	62.3	38.52	3,045
Texas	6.25	na	7.0-9.5	2.57	46.80	na	41.77	65.6	32.90	3,554
Utah	4.70	5.00	6.00	1.31	39.08	33.17	22.82	60.9	39.69	3,436
Vermont	6.00	3.55-8.95	6.0-8.5	2.06	29.20	22.73	42.01	72.6	37.95	4,727
Virginia	4.00	2.0-5.75	8.59	1.12	26.39	34.31	30.94	68.2	31.97	4,196
Washington	6.50	na	na	1.13	62.07	na	26.84	66.7	38.09	4,354
W. Virginia	6.00	3.0-6.5	8.50	0.95	37.86	31.23	18.61	61.8	40.01	3,542
Wisconsin	5.00	4.6-7.75	7.90	2.09	27.43	31.08	36.01	71.1	37.58	4,331
Wyoming	4.00	na	na	2.18	33.01	na	36.88	62.1	48.03	6,930
All State ave.	na	na	na	1.4486	34.45	27.45	30.07	68.5	37.35	4,362

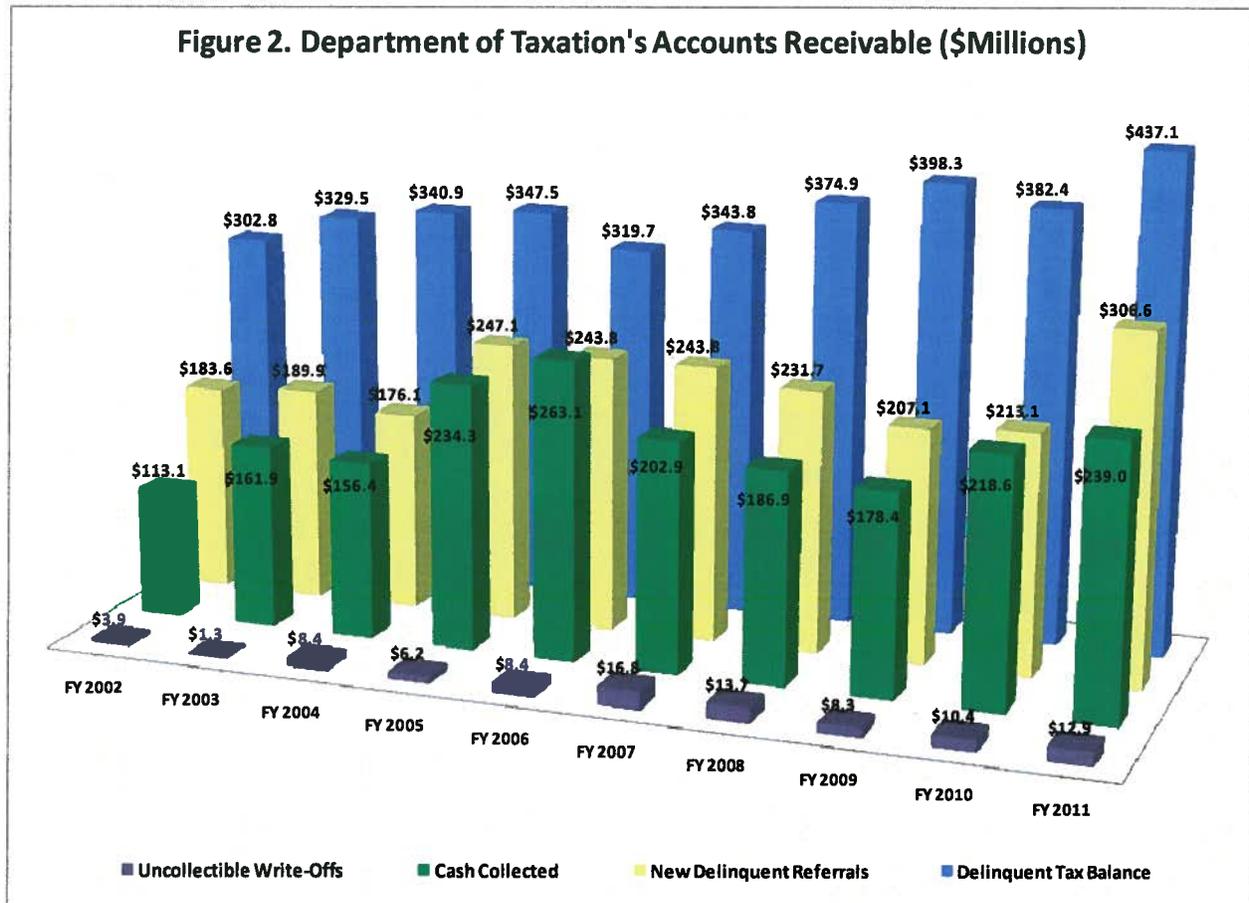
ACCOUNTS RECEIVABLE

The Tax Review Commission asked the Department to provide data on the Accounts Receivable:

- What is the total for accounts receivable?
- What is collected on the accounts receivable?
- What does the Department need to collect the remaining accounts receivable?

Figure 2 reflects the Department of Taxation's Accounts Receivable, as reported in its annual reports, since 2002. (Note: The fiscal 2011 data are unofficial estimates; the 2010-2011 DOTAX Annual Report has not yet been finalized and released.) For fiscal year 2011: the delinquent tax balance was \$437.1 million; the amount of new delinquent referrals was \$306.6 million; cash collected was \$239.0 million; and the amount of the uncollectible write-off was \$12.9 million.

The Department is currently engaged in business process re-engineering of its collection function. One goal is to better identify the specific resources needed to more efficiently pursue its accounts receivables.



WHO PAYS HAWAII'S TAXES?

According to the study by the 2005-2007 Tax Review Commission, "Study on the Progressive or Regressive Nature of Hawaii's Taxes," Appendix D, 68.5% of the total state and county taxes is borne by residents, whereas 31.5% is shifted out of State. The study was done in 2006 and does not reflect any tax law changes enacted after the study was completed.

Aggregate Distribution of Tax Burdens (In \$millions)					
Tax	Total Revenue	Amount Borne By Residents		Amount Shifted Out of State	
		Higher Prices	Reduced Incomes	Federal Government	Other
<i>Hawaii State Taxes</i>					
1. General Excise and Use Taxes.....	2,136.6	1,114.0	212.7	134.4	675.5
2. Individual Income Tax.....	1,381.5		1,067.1	237.4	77.0
3. Transient Accommodations Tax.....	198.8	7.9	53.8	9.5	126.8
4. Public Service Company Tax....	108.7	57.4	30.8	5.5	15.0
5. Corporation Income Tax.....	85.6	45.2	24.3	4.3	11.8
6. Tax on Insurance Premiums.....	83.1	43.9	23.5	4.2	11.5
7. Tax on Banks and Other Financial Corporations...	38.5	20.4	10.9	1.9	5.3
8. Estate and Transfer Tax ^a	12.7			12.7	
9. Conveyance Tax.....	24.6	4.4	12.0	1.8	5.5
10. Taxes on Fuel.....	106.5	77.0	6.3	1.1	22.2
11. Tax on Liquor.....	43.7	34.6	2.6	0.4	6.1
12. Taxes on Cigarettes and Tobacco.....	85.2	74.6	3.0	0.5	7.1
13. Motor Vehicle Taxes ^b	100.3	56.3	12.5	2.2	29.3
Total, State Taxes.....	4,405.8	1,533.6	1,461.4	417.1	993.0
<i>County Taxes</i>					
1. Real Property Taxes.....	968.3	88.0	550.5	118.0	211.9
3. Fuel Tax.....	76.3	55.1	4.5	0.8	15.9
2. Motor Vehicle Weight Tax.....	60.3	60.3			
4. Public Utility Franchise Tax.....	41.5	21.9	11.8	2.1	5.7
5. Public Service Company Tax.....	42.5	22.4	12.1	2.1	5.9
6. Licenses and Permits ^c	63.9	33.8	18.1	3.2	8.8
Total, County Taxes.....	1,252.8	281.5	597.0	126.2	248.2
Total, State and County Taxes.....	5,658.6	1,815.1	2,058.4	543.3	1,241.2

^a Hawaii's Estate and Transfer Tax has been effectively repealed for decedents dying after December 31, 2004.
^b Includes the State's Motor Vehicle Weight Tax and the surcharge on rental and tour vehicles. The rental surcharges produced \$43,950,000 of the total revenue in this category.
^c Excludes the counties' Motor Vehicle Weight Taxes.

The distribution of tax burdens by income class as reported in the study by the 2005-2007 Tax Review Commission, "Study on the Progressive or Regressive Nature of Hawaii's Taxes," Appendix D, is shown below:

Distribution of Tax Burdens by Income Class					
<i>Income and Expenditures</i>					
Income (Federal AGI).....	\$25,000	\$50,000	\$75,000	\$100,000	\$150,000
Expenditures.....	28,000	41,380	55,010	70,330	93,730
Expenditures subject to GET	18,490	25,820	31,320	39,290	50,990
<i>Tax Burden for a Single Individual</i>					
GET.....	1,599	2,232	2,709	3,397	4,409
Individual Income Tax.....	958	2,077	3,235	3,863	6,261
TAT.....	51	93	139	162	238
Taxes on Business ^a	249	411	582	707	995
Real Estate Taxes ^b	539	981	1,461	1,707	2,501
Alcohol & Tobacco.....	105	108	111	114	119
Fuel & Motor Vehicles ^c	268	279	290	302	325
Total Tax Burden.....	3,769	6,181	8,527	10,252	14,848
Burden Ratio.....	15.1%	12.4%	11.4%	10.3%	9.9%
Burden Ratio, State Taxes....	12.2%	10.0%	9.1%	8.2%	7.9%
Burden Ratio, County Taxes...	2.9%	2.4%	2.3%	2.1%	2.0%
<i>Tax Burden for a Family of four</i>					
GET.....	1,599	2,232	2,709	3,397	4,409
Individual Income Tax.....	423	1,431	2,561	3,691	5,616
TAT.....	53	96	142	166	243
Taxes on Business ^a	256	422	581	724	985
Real Estate Taxes ^b	605	1,080	1,523	1,866	2,577
Alcohol & Tobacco.....	207	210	212	216	222
Fuel & Motor Vehicles ^c	396	599	700	789	811
Total Tax Burden.....	3,542	6,074	8,427	10,856	14,859
Burden Ratio.....	14.2%	12.1%	11.2%	10.9%	9.9%
Burden Ratio, State Taxes.....	10.8%	9.2%	8.6%	8.4%	7.8%
Burden Ratio, County Taxes....	3.4%	2.9%	2.6%	2.5%	2.1%
<p>a Includes the Corporation Income Tax, State and county Public Service Company Taxes, the Tax on Banks and Other Financial Corporations, the Tax on Insurance Premiums, the county Public Utility Franchise Taxes, and the county charges for licenses and permits.</p> <p>b Includes the Conveyance Tax and the county Real Property Taxes.</p> <p>c Includes the State surcharge on motor vehicle rentals.</p>					

**Alternative Calculations for the
Distribution of Tax Burdens by Income Class**

Income and Expenditures

	\$25,000	\$50,000	\$75,000	\$100,000	\$150,000
Income (Federal AGI).....	\$25,000	\$50,000	\$75,000	\$100,000	\$150,000
Expenditures.....	28,000	41,380	55,010	70,330	93,730
Expenditures subject to GET	18,490	25,820	31,320	39,290	50,990

Tax Burden for a Single Individual

Total Tax Burden.....	3,769	6,181	8,527	10,252	14,848
Burden Ratio.....	15.1%	12.4%	11.4%	10.3%	9.9%
GET (2) ^a	3,599	5,930	8,217	9,865	14,341
Burden Ratio (2) ^a	14.4%	11.9%	1.0%	9.9%	9.6%
GET (3) ^b	3,612	6,763	9,789	11,990	18,046
Burden Ratio (3) ^b	14.4%	13.5%	13.0%	12.0%	12.0%
50% Tax Exporting ^c	3,900	6,392	8,816	10,601	15,333
Burden Ratio (4) ^c	15.6%	12.8%	11.8%	10.6%	10.2%
Individual Income Tax (2) ^d ..	3,680	6,093	8,409	10,161	14,761
Burden Ratio (5) ^d	14.7%	12.2%	11.2%	10.2%	9.8%

Tax Burden for a Family of four

Total Tax Burden.....	3,542	6,074	8,427	10,856	14,859
Burden Ratio.....	14.2%	12.1%	11.2%	10.9%	9.9%
GET (2) ^a	3,719	6,325	8,737	11,244	15,366
Burden Ratio (2) ^a	14.9%	12.7%	11.6%	11.2%	10.2%
GET (3) ^b	3,385	6,656	9,689	12,594	18,057
Burden Ratio (3) ^b	13.5%	13.3%	12.8%	12.6%	12.0%
50% Tax Exporting ^c	3,675	6,289	8,712	11,209	15,334
Burden Ratio (4) ^c	14.7%	12.6%	11.6%	11.2%	10.2%
Individual Income Tax (2) ^d ...	3,444	5,985	8,297	10,374	14,683
Burden Ratio (5) ^d	13.8%	12.0%	11.1%	10.4%	9.8%

a The rows labeled "GET (2)" and "Burden Ratio (2)" show the total tax burdens calculated assuming expenditures are 10 percent less than those shown in the *BLS Survey* for the income class for single individual and 10 percent more for the family of four.

b The rows labeled "GET (3)" and "Burden Ratio (3)" show the total tax burdens calculated assuming expenditures are equal to income.

c The rows labeled "50% Tax Exporting" and "Burden Ratio (4)" show the total tax burdens calculated assuming that only one-half (instead of two-thirds) of taxes paid by tourists are exported.

d The rows labeled "Individual Income Tax (2)" and "Burden Ratio (5)" show the total tax burdens as estimated for the new Individual Income Tax rules that takes effect on January 1, 2007.

GENERAL EXCISE TAX FROM SALES OF FOOD AND NON-PRESCRIPTION DRUGS

The Department has estimated that in 2010, \$212.5 million of the total general excise tax collection of \$2.4 billion, or 8.9%, is from food consumption and nonprescription drugs.

	2010 GET Base	2010 GET	2012 GET Base	2012 GET
Total food consumption	5,151,805,589	206,072,224	5,761,302,451	230,452,098
Food at home	2,694,394,323	107,775,773	3,013,161,182	120,526,447
Food away from home	2,457,411,266	98,296,451	2,748,141,269	109,925,651
Nonprescription drugs	161,428,618	6,457,145	180,526,822	7,221,073
Total		212,529,368		237,673,171