

## **TAX REVIEW COMMISSION**

**MINUTES FOR THE SECOND MEETING OF THE  
TAX REVIEW COMMISSION  
HELD AT 830 PUNCHBOWL STREET  
DEPARTMENT OF LABOR & INDUSTRIAL RELATIONS ROOM 310-314  
IN THE CITY AND COUNTY OF HONOLULU  
STATE OF HAWAII, ON MONDAY, JULY 18, 2016 AT 1:30 PM**

The Commissioners of the Tax Review Commission (TRC) met at the Department of Labor & Industrial Relations Conference Rooms in the City and County of Honolulu, State of Hawaii, on Monday, July 18, 2016.

**Members Present:** John Knox, Chair  
Colleen Takamura, Vice-Chair  
Raymond Blouin  
Vaughn Cook  
M. Nalani Kaina  
Dawn Lippert

**Member Absent:** William Pieper

**Staff:** Don Rousslang, Ted Shiraishi, Titin Sakata and Noe Kaawa

**Others:** Randall Nishiyama, Department of the Attorney General  
Ben Park, Senate Ways and Means Committee  
Peter Fritz

### **CALL TO ORDER:**

TRC Chair Knox called the meeting to order at 1:32 PM.

He began with introductions from the members and from the audience. Since it was Commissioner Lippert's first meeting, Chair Knox explained that in the previous TRC meeting, each member introduced themselves and gave a brief summary of their background and interests. He then asked Commissioner Lippert to do the same and also asked everyone else to introduce themselves as well.

Commissioner Lippert introduced herself and said she was looking forward to participating on the TRC, and her background is in clean energy and entrepreneurship. She said things important to her in the tax process were clarity, transparency and equity up and down the income scale. She said she was particularly interested in economic development and creating a predictable tax environment and level playing field for business.

Commissioner Blouin introduced himself. He said he resided on the island of Kauai since 1981 and has been in the hotel and resort business.

Commissioner Kaina introduced herself. She said she is currently the Executive Director of the Legal Aid Society of Hawaii and brings experience working with the non-profit sector.

Ms. Noe introduced herself. She said she is the secretary for the TRC and is with DoTAX Rules Office.

Commissioner Takamura introduced herself and lives on Maui. She said she is a CPA that works for a private company and a public accounting firm. She has been an Accountant since 1982.

Chair Knox said that Commissioner Takamura was the TRC Vice-Chair.

Commissioner Cook introduced himself. He said he is an attorney from the Hilo Office of Torkildson, Katz, Moore, Hetherington and Harris. He said he has practiced in the area of tax for many years. He began as a CPA and is now an attorney.

Mr. Fritz introduced himself. He said he was disturbed that he requested all the documents that were handed out today and those copies were not available and should have been for the audience according to his understanding of the requirements in Chapter 92. He said he was an attorney practicing in the tax area for quite a while. He said he was hired by the department at one time by Ray Kamikawa and has participated in the past two conferences, and is probably the only person in the room that has a tax history that goes back to 1992 and who knows about some of the decisions that were made and thinks there's nobody else left in the department with that kind of knowledge.

Chair Knox thanked Mr. Fritz and asked to make sure he had copies of the hand-outs including the background he emailed that morning. He also said that he was still learning about what's appropriate and how things are posted.

Mr. Fritz said he had another request. He said Mr. Iwase seemed to want to hold meetings on Yon Kippur and Rosh Hashana. He said he would appreciate it if the TRC would not hold meetings on those days. It would be very difficult for him to attend and felt it was unfair to do that.

Chair Knox said the TRC will make an attempt to recognize those holidays.

Dr. Rousslang introduced himself and said he is from DoTAX.

Mr. Nishiyama introduced himself and said he is from the Attorney General's Office.

Chair Knox explained that Mr. Nishiyama was the Deputy Attorney General for the TRC.

Mrs. Sakata introduced herself and said she is from DoTAX.

Mr. Park introduced himself and said he is from the Senate Ways and Means Committee.

Mr. Shiraishi introduced himself and said he is from DoTAX

**APPROVAL OF MINUTES FROM PREVIOUS MEETING:**

Chair Knox said the first order of business on the agenda was the approval of the minutes from the June 27, 2016 meeting and asked if there was any motion to revise the minutes.

Commissioner Cook asked if the meetings were being recorded. He said minutes were just minutes, not transcripts. He asked if the TRC ever needed a transcript, was it available?

Ms. Noe offered the recordings.

Commissioner Cook said he didn't want the recordings now, but asked if he could get one.

Ms. Noe said yes.

Mr. Fritz said he can't hear everybody in the room and uses a computer aided note-taker. He said she would provide him with a copy of her notes when the meeting is done. He said he would be happy to email those notes to anyone that wants a copy.

Chair Knox asked if this was a member from the public taking the transcript.

Ms. Augustin said she was a computer assisted note-taker.

Mr. Fritz said it was an accommodation provided through the American Disabilities Act.

Ms. Augustin asked Chair Knox if he wanted her card.

Chair Knox said yes.

Mr. Fritz said that since Commissioner Cook raised the issue, he thought to offer to share what was provided to him.

Chair Knox asked the TRC if there were any changes to the minutes. He noted a typographical error on Page 3. He said the name "Sylvie" should be "Sylvia"

He asked if there was any written communications to the TRC.

Commissioner Kaina asked Chair Knox if he wanted a motion to accept the minutes.

It was moved by Commissioner Kaina and seconded by Commissioner Cook to approve with edits to the minutes of June 27, 2018. The motion carried unanimously.

**COMMUNICATIONS AND PUBLIC COMMENTS TO THE COMMISSION:**

Chair Knox asked if the TRC had any written communications.

Mrs. Sakata said yes, an email was received from Commissioner Pieper who was unable to attend the meeting, but who made a suggestion for a study to look into tax policies around the nation or the world that specifically aim to spur economic development in the state. We've had similar attempts in the past such as Act 221 but didn't think it produced the anticipated or desired effect. He said he felt sure there were some good ideas out there. He said it was unrealistic to think that we can tax our way out of the deficit and growing entitlements but if we're able to attract another economic pillar to our state to supplement our already mature economy (tourism, government and construction), we may be able to make progress.

Chair Knox said it is his understanding that the TRC invite comments from the audience and will allot three minutes. He then opened the floor to anyone who wanted to speak to the TRC.

Mr. Fritz said he just wanted to repeat his understanding of the opinions from the Office of Information Practices regarding certain meetings like the TRC that documents that are introduced and read into these meetings become public documents. He said he would not like to be kept in the dark since he can't hear everything that's being said. He said if documents were given out for a meeting, there should be copies for everyone. The public shouldn't be kept in the dark.

Chair Knox asked if there was anything that needed to be distributed.

Mr. Fritz said he didn't think Mrs. Sakata had made enough copies for everyone.

Chair Knox said that he had extra copies of the document he sent that morning.

Commissioner Cook said he printed his own materials and had copies available.

Mrs. Sakata said she had provided Mr. Fritz with copies and asked what else he needed.

Mr. Fritz said he didn't know. He said he saw some graphs and other things passed out, and that Mrs. Sakata should know what she passed out.

Chair Knox said no. The TRC suggested a system in the future where there is a place on a table for the audience to pick up materials.

Commissioner Kaina asked for clarification from Mr. Nishiyama on the rules regarding the distribution of materials prior to the TRC meetings required by the Sunshine Law.

Mr. Nishiyama said the Sunshine Law required that the documents should be posted on the website and made available to the public in that fashion. He said Mr. Fritz was correct, that if documents were distributed at the meetings, they should make available to the public.

Commissioner Kaina asked if the documents have to be posted on the website before or after the TRC meetings.

Mr. Nishiyama said that if Chair Knox submits documents to the parties, they should be posted before the meeting.

Mr. Fritz said one of the problems came out at a bill hearing last year. He said Senator Kim noticed the trustees at UH made multimillion dollar decisions on information they received only a few minutes earlier. Another problem is often times the materials were not in an accessible format when posted on the website. He said the department is not compliant with the ADA on its website documents.

Commissioner Kaina said she was asked the question, because as Chair Knox said, the TRC is just getting started and she wanted to ensure that everyone knows what the rules are.

Mr. Fritz said he is a New Yorker and if he were really upset, he would be screaming and yelling. He said he understood there is a transition period, but he wanted to bring up the issue now so things can be done moving forward.

Chair Knox said it's important for him to understand there issues. He said his previous understanding was that he could distribute background materials to the TRC and then if necessary, post them on the web. He said he did something that morning and sent it out at the last minute. He asked if that situation arises again, should he send the materials out.

Mr. Nishiyama said he should post it on the website.

Chair Knox asked how long it took to have something posted on the website.

Mrs. Sakata said DoTAX staff would have to work with webmaster. He usually posts materials as soon as possible, but she cannot guarantee posts to the website since she is not the one doing it. Staff only sends webmaster materials for posting.

Commissioner Blouin suggested that perhaps the TRC needs to adopt a policy for posting materials to the website 48 hours before the next TRC meeting and if that is not acceptable by the webmaster, please let the TRC know.

Mr. Fritz said he just wants to be part of and sitting in the dark trying to wonder. He doesn't know if the TRC needs a formal policy and there's a lot of guidance on it. As far as posting on the website, that's been an issue and has been in front of the legislature for the past several sessions. He wished he didn't know that much about it but he does because he's testified on many of those bills. He thanks Chair Knox for his consideration.

Chair Knox then explains to Mr. Fritz that what he did at the last minute was a comparison of the six prior TRC reports in terms of the sort of output that they had which would be background for some may be discussed that day. It was not a real action item per se.

**DISCUSSION AND ACTION REGARDING TIMELINE FOR REPORTS/STUDIES TO BE PRODUCED BY THE COMMISSION:**

Chair Knox asked if anyone else had comments. He then moved on to the next agenda item which was to be presented by Mallory Fujitani.

Mr. Shiraishi apologized to the TRC and said that Mrs. Fujitani was unable to attend the TRC meeting due to an emergency.

Chair Knox asked if anyone else was prepared to speak with the TRC about the timeline.

Mrs. Sakata said she could go over what happened with the previous TRC in terms of procurement.

Chair Knox said the TRC was informed in the last meeting that time was short and that the TRC really needed to move to decide of how they wanted to allocate resources prior to any outreach effort that they might have intended. He asked how long different types of procurement take and. He asked what happened in the past.

Mrs. Sakata said the last TRC tried to hire a part-time Economist and issued a notice to providers of professional services that took about a month from issuance to making a selection. Then there were negotiations with the Economist on what the Economist was to do for the TRC. Unfortunately it didn't work out. The last TRC's first meeting was July, 2011; this TRC had a one month head start.

In September, 2011, two months after their first meeting, the TRC issued a notice to providers of professional services to do a study. Their budget was \$100,000 to \$150,000, but the scope of the study was too broad, so they got no response.

In December of 2011 the TRC met to narrow the scope of the study. They reissued a new notice to providers of professional services. In January, 2012 the TRC received three bids and by the following month a contract was signed. From the time the contract was issued to the submission of the draft report to the TRC took eight months.

Mr. Shiraishi said the lesson learned from the previous TRC were they asked for more than they could get for the price they offered, so they got no bids. However, they were able to issue a new notice and select a contractor within about thirty days. From the issuance of the contract, the PFM Group was able to complete the study in six months.

Commissioner Kaina asked Mr. Shiraishi if the last TRC had a report issued in September.

Mr. Shiraishi said that was when the TRC received their first draft from the PFM Group.

Commissioner Kaina said that Mrs. Sakata said there was a July meeting and a study in September?

Mr. Shiraishi said the TRC tried to hire a part-time Economist and then considered a contract to hire a consultant to do a study.

Commissioner Kaina asked what happened in September

Mr. Shiraishi said it was the first time the TRC went out for professional services and failed to get bids.

Chair Knox asked if there were any more questions on the topic.

Mrs. Sakata said the previous TRC also asked Dr. Fox to update some of his studies. She said the TRC could ask previous consultants to update studies. For example, they could ask the PFM Group to update the study on tax adequacy. That could take less time and possibly be cheaper.

Commissioner Takamura asked how long it took Dr. Fox to update his studies.

Mrs. Sakata said a solicitation went out December, 2011, the contract was signed in February, 2012 and the TRC received his report in June, 2012.

Commissioner Cook said it was mentioned that there was a request for proposals that got no response, how was price determined to put in that request.

Mrs. Sakata responded that pricing was probably driven by the TRC's budget of \$200,000, which had to cover expenses like travel, printing, and a hired researcher and writer. They decided to dedicate \$150,000 to the study.

Commissioner Cook said what he was trying to find out how the TRC knew that the question was too broad for the budget allocated, and how much to narrow down the question.

Mrs. Sakata said Mr. Iwase contacted several people he felt might want to bid and Dr. Rousslang received feedback from UHero.

Commissioner Blouin asked who Mr. Fox was.

Mrs. Sakata said Dr. William Fox was a professor in Tennessee who had done work on the Streamline Sales Tax Market.

Commissioner Blouin asked what PFM stood for.

Mrs. Sakata replied that PFM stood for Public Financial Management Group.

Chair Knox asked if he could request a written document for the TRC that talks about the different types of services the TRC might contract, dollar limits on the different contract types and the timeline for each.

Mr. Shiraishi said he didn't know if there is such document.

Mrs. Sakata explained that the TRC could tell DoTAX what they want to study, and DoTAX Administrative Services Office could advise what the best method to use is.

Mr. Shiraishi asked Chair Knox to clarify.

Chair Knox said he was asking for a crib sheet that would tell the TRC for example, professional services, what the steps to take were and how long it would take.

Mrs. Sakata said the last TRC used only professional services and the time required depended on the scope of professional services.

Chair Knox asked about the difference between contracts for consultants and for reports

Mr. Shiraishi said between contracts for consultants and for reports there are three types of procurements. First is general request for proposals with open competitive bidding, second is professional services which are a little different but easiest to do and last is sole source which lets you choose a vendor without bidding.

Mr. Fritz said prior RFP's were public records and looking to see what was done previously could give this TRC some ideas of the services they may want. The TRC should be able to request those documents.

He said last TRC spent a great deal of money developing a spreadsheet to be used by the legislature to determine how to spend revenues, but the Hawaii Revised Statute under Chapter 28 said the Finance Committee can only use estimates produced by the Council on Revenues (COR), so they can't use an outside party to determine the budget. The TRC could also look at how previous TRCs spent their money.

#### **DISCUSSION REGARDING AVAILABLE RESOURCES:**

Chair Knox continued to the next agenda item, which was discussion and actions regarding available resources. He asked Mr. Shiraishi to reiterate for the TRC the budget and staff capabilities.

Mr. Shiraishi said for this TRC legislative bill was SB 2922, which was signed into law by Governor Ige on July 6, 2016 and that became Act 232, Session Laws of Hawaii, provided a budget of \$250,000.00 for the TRC. He said he estimated that \$13,000 to \$14,000 would be needed to cover administrative expenses like travel and possibly printing.

He said the department's Tax Research and Planning Office (TRP) was not fully staffed. Therefore, the administrative support would be provided through the Rules Office. He said the TRC should be aware that from January, 2017 through May, 2017 the Rules Office which includes Mrs. Sakata and himself would be heavily involved with the legislative session, but that they would try to meet requests of the TRC.

Chair Knox said he reviewed documents from the past six TRCs to try to understand a couple of things about them, such as the extent to which they did a comprehensive overview of Hawaii's tax system. He said that the earlier TRCs did very comprehensive work and then gradually became more focused on particular questions (topics). He said he didn't know how much money or staff each TRC had. He said that sometimes they were DoTAX staff, sometimes they used contract staff. He said he was trying to grasp what the resources the TRC's had and how they



applied them. He said he knows the TRC budget is limited, and understood that DoTAX was understaffed, but would assist when possible.

He said the past few TRCs were largely driven by the chair. He said Mr. Randy Iwase was a strong chair and put in a tremendous amount of work. He said Iwase came in not without an agenda, but developed one quickly. .

Chair Knox said he had conversations with a man who was a former Hawaii Economist and who had served as Executive Director for state TRCs around the country. His name was Mr. Bob Ebel, and he has worked with Mr. Jim Mock, a retired UH Economics professor and consultant to an earlier TRC.

He asked for approval from the TRC for a small preliminary contract to have Mr. Ebel advise the TRC on how to organize. He felt it was useful to have someone with experience on what has happened in Hawaii in the past and on what other states have done.

Mr. Nishiyama advised to have the item considered on the next agenda because it was of significance and importance.

Commissioner Blouin asked Chair Knox if the conversations he had were to get peoples' opinions rather than to share his opinions with the community.

Chair Knox said that was correct.

Commissioner Blouin said he would be in favor of seeing a resume for Dr. Ebel and having a discussion at the next meeting about him and about along with any other individuals the TRC felt may be helpful.

Commissioner Takamura asked if (the preliminary contract) had to go out for bid.

Commissioner Blouin said he thought Chair Knox had asked DoTAX to share with the TRC the different methods the TRC could use to contract for resources.

Commissioner Lippert said if a contract has to go out for bid, it would be nice to have a draft RFP available at the next meeting so the TRC could move forward. She liked the idea of having advice from people who have experience from other states.

Chair Knox asked for comments from other TRC members, from DoTAX staff or from the audience.

Commissioner Takamura asked if the TRC used a consultant before.

Mrs. Sakata said the last TRC issued a notice for professional services to hire an Economist and received three bids.

Chair Knox said that there were different methods of procurement and he needed to get more information about how to hire a consultant. He said he was thinking of hiring someone to help and was going to meet with DoTAX staff regarding that matter. He invited other TRC members to refer qualified people they knew about. He said if others had recommendations, they could send them to Mrs. Sakata or him as soon as possible so they could be added to the next agenda.

Commissioner Kaina asked if Chair Knox wanted to do a procurement contract for an individual to help to organize the work of the TRC.

Chair Knox said yes.

Commissioner Kaina asked if in the next meeting, the TRC would be discuss the scope of services so a procurement notice could go out to hire someone to help in their work.

Chair Knox said that's what he was thinking of doing.

Commissioner Kaina said she was concerned about the limited resources the TRC has. She questioned hiring someone to help organize their work and felt that there might be another way to do that. However, she said hiring someone with expertise about what other states have done may be useful. She said she was concerned about the TRCs limited resources.

Chair Knox estimated this contract might cost about \$5,000.00

Mr. Nishiyama advised Chair Knox that he needed a motion.

Chair Knox asked the TRC for a motion authorizing him to speak with DoTAX staff regarding a proposal to hire a consultant.

The motion was made by Commissioner Lippert and seconded by Commissioner Blouin.

Commissioner Blouin reiterated that the motion was to authorize Chair Knox to engage in discussion with DoTAX staff on what may be needed to assist the TRC. He said it was mentioned earlier that the department's Tax Research and Planning Office was short staffed. He asked if that what Chair Knox had in mind?

Chair Knox said he was thinking of getting advice for the TRCs work.

Commissioner Blouin asked if Chair Knox wanted to discuss with DoTAX staff how the TRC may best go about organizing itself.

Chair Knox said yes.

Commissioner Blouin said he agreed that Chair Knox should speak with DoTAX staff to identify how their department has supported TRCs in the past and to see what they can offer to the present TRC.

Commissioner Lippert said she thought the question was less about organizing the TRCs work and more about how to focus the work. She said she felt that there were too many issues on the table. She wanted to discuss more how to leverage the TRC's impact rather than how it should be organized.

Commissioner Cook said he was curious about the scope of the proposal and wanted to see how the proposed consultant had advised. He said they could learn from TRCs in other jurisdictions. He said he shared Commissioner Kaina's concerns about the budget and about having an outside party steering the debate, and impinging on the TRC's role.

Chair Knox said past TRCs contracted staff and assigned a great deal of work to staff. He said the TRC may have to hire and contract with outside parties for studies that DoTAX staff had provided to previous TRCs. He said he thought it was important to understand the different procurement methods.

Commissioner Takamura asked whether the studies DoTAX had done previously could be updated. She said that could help the budget.

Chair Knox said only if the studies fit into the TRCs priorities.

Commissioner Takamura said if the TRC could get a response to her question; it would help to know how much they would have to spend to have someone update the studies.

Commissioner Kaina reiterated her concern about using funds to hire someone to organize the TRC. She said she thought this was a task the TRC should do with the assistance of DoTAX staff based on their experience with the previous TRCs. She said the TRC should ask DoTAX to provide more guidance about methods the past TRCs used. She said she thought some of the documents they had gave guidance on how they should prioritize, but it might be a good idea to figure out by the next meeting what the priorities would be rather discussing how to procure assistance from an outside contractor. She said she would support Chair Knox with his proposal that she felt strongly that the TRC should work with DoTAX staff.

Chair Knox asked for either Dr. Rousslang or Mr. Shiraishi to review how the last TRC had made decisions.

Mr. Shiraishi said he just became employed with DoTAX as a Rules Specialist during the last TRC and did not work with them. He said he felt that the TRC had two options to choose from. The first option would be to figure out what to study and how much to spend. The second option would be how to allocate its resources. However, he said he felt it would be better for the TRC to decide what to study first. He said the more topics the TRC decides to study, the less substance the studies will have. For example, if the TRC decided to study the entire income tax system, they would not be able to study each item in as much depth, however, if only a few topics were selected from the income tax, they could have more resources to spend on them.

Chair Knox said that he was seeking a small amount of upfront funds to assure that the remaining funds would be used efficiently and effectively.

Commissioner Blouin asked if the motion gave Chair Knox authority to meet with DoTAX to establish communications regarding how to help the TRC move forward.

Chair Knox said he was asking the TRCs permission to meet with DoTAX to comeback with a specific report on his proposal.

The TRC then voted on the motion. In favor of motion were Chair Knox, Commissioner Blouin, Commissioner Lippert, Commissioner Takamura and Commissioner Cook. Commissioner Kaina abstained and Commissioner Pieper was absent.

### **DISCUSSION AND ACTION REGARDING REPORTS/STUDIES TO BE PRODUCED BY THE COMMISSION:**

Chair Knox moved to the next item on the agenda, which was discussion and action regarding reports and studies to be produced by the TRC. He said this would be a preliminary discussion, to get a sense of priorities. He referenced some background items including a study he did that included a summary and charts. The study compared Hawaii to other states to see if Hawaii has a bigger government than most states. To make the comparison, he combined revenue from both the state and local governments, because our state government has more functions than other states. He found about three-fourths of the civil service employees' work for the state, double the proportion in the average state. The full study had twenty years of data from the U.S. Census. It found that in the 2000's, Hawaii was a very ordinary state in terms of combined state and local revenues, expenditures, workforce, debt and holdings. The sources of revenue tended to be skewed towards taxes, especially taxes born in part by tourists, like the GET and the TAT. He said his was a broad study that didn't consider the differential effects of particular taxes on residents or investors. Also, the U.S. Census data on which the findings were based did not consider the state's unfunded liabilities for government employees' retirement systems, which was the focused of the last TRC's report.

Chair Knox said he d he assumed the TRCs scope was to look at the State only, but noted that previous TRC reports considered county revenues too and he said he was told that other states considered state and county taxes. He referred to Figures 2a and 2b in his study, which showed that Hawaii taxes were only 17 .7% of the economic activity in the State. He said Hawaii got more of its total revenue from taxes (72% versus70% for the average state), but gets less in charges and miscellaneous revenue. Hawaii got more of its revenue from sales taxes (the GET), but less fuel taxes, corporate income taxes and a variety of other taxes. He said we have the highest percentage of revenues from airport related fees, but the low percentages from university tuition and interest from earnings.

He said Charts 1a and 1b showed Hawaii with a low percentage of revenue from property taxes (12% versus the average state at 21% with the property taxes supporting education.)

Commissioner Lippert questioned whether Hawaii got a larger share of federal funding than being 49<sup>th</sup>. and asked if Chair Knox's figure included investments by the federal government outside of state government.

Chair Knox said there was a lot of spending by the federal government in Hawaii, but the charts represented what went to the state government. Much of the federal funding was earmarked for specific programs like welfare.

Mrs. Sakata prepared charts to show the largest sources of tax revenue in the last ten years. The largest source was the GET. Second largest was personal income tax. She said the GET represents about 44%, personal income tax between 29%-30% and all others 27% of the revenue collected. The charts showed fourteen to fifteen tax types. She said they should help the TRC with their mandate of reviewing Hawaii's tax structure and tax policies.

She repeated that data are not available for GET exemptions and deductions, and that there would be no point in a study without data. She said the focus should be on personal income tax exemptions and deductions.

She also said the list requested by Commissioner Kaina to update the summary of recommendations by the previous TRCs and the implementations or adoptions by the legislature was done. She said she would highlight identical recommendations made by four TRCs. First was to minimize all tax exemptions and credits. The legislature tried by suspending GET exemptions for two years. However, without a study cannot know how effective this measure was. Second was to lower the overall level of state taxes. There were some efforts by the legislature to increase the standard deductions, increase the tax brackets and increase the tax rates for the wealthy. Third required GET licenses for non-profit organizations and there were several legislative actions taken. Fourth was an income tax recommendation to provide income tax credits to offset the regressive effects of the GET on food and drugs. There has been a food and excise tax credit in place. The credit amount was increased to provide people relief from GET on food and drugs.

She said five TRCs recommended expanding the individual income tax brackets. All six TRCs recommended increasing the standard deduction and the last four TRCs recommended increasing the personal exemption. In comparison, Hawaii is only at 35% of the federal level for the standard deduction and personal exemption is a little less.

Commissioner Cook said he knew that looking at the GET exemptions and deductions for GET without data was an , but that was an area that the Senate Ways and Means Committee was interested in, as well as some of the past TRCs. He asked how the Council on Revenues (COR) generated their revenue estimates.

Mrs. Sakata said the COR only looked at the bigger picture of the general fund tax revenue, but if there were legislative tax proposals that would change tax collections, the departments' TRP Office would review them and provide revenue estimates.

Commissioner Cook asked if the estimates were made without data.

Dr. Rousslang said there was a regression equation for GET collections, and as long as none of the exemptions or deductions changed, one could look at past experience. If the exemptions or deduction changed, one would have to provide an estimate for the effect of the change in tax law.

He said data for GET exemptions claimed would not tell you much about the amount of revenue involved. For example, if the subcontractor deduction were eliminated, contractors could just change the way they operate or classify themselves as service providers instead of contractors. Individual contractors could go directly to the top and bill the final consumer to eliminate any double taxing of all subcontractors. This type of adjustment may apply to some of the other exemptions and deductions. So data on how much was actually claimed would not give the TRC much help as far as determining how much would be raised if the exemptions and deductions were taken away.

He said the legislature might look at the data it like they did with the last TRC report and say "WOW, look at all the money that's here, here and here!" But the actual amount claimed can be very different from the revenue gotten for taking an exemption or deduction away. Ideally, the TRC would want something that tells whether a GET exemption was a special tax break, not something that's there because the GET has no business trying to tax the item or to provide anti-pyramiding relief. It must be realized that data for amounts claimed for exemptions and deductions have limited value.

Mr. Shiraishi said the department has aggregate amounts for GET, but not by every single exemption.

Dr. Rousslang said if you took out items like insurance and wages, which represent large dollar amounts but are not GET tax expenditures. The biggest exemptions would be for non-profits and hospitals.

Chair Knox said the TRC had four requests from the legislature and four from Governor Ige, with one overlapping request. He said he also got feedback from legislators and from discussions with DoTAX about how to approach the TRC's task. He said it boiled down to some broad topics, and those topics were adequacy, GET exemptions and deductions, personal income tax exemptions and deductions, income tax equity and the taxation of transient accommodations.

### STRAW POLL RESULTS

	Vaughn Cook	Dawn Lippert	Nalani Kaina	Ray Blouin	Colleen Takamura	John Knox	Total
Adequacy		2				2	4
GET/Exemptions	5	1	3	2	3	1	15
Income Tax Credits/Exemptions*		3	1		2	2	8
Income Tax/Equity Issues		2	3	2		2	9
TAT/TOT Issues				3	1	1	5
Addl. Revenue Sources			3	3	2	2	10
Overall Neutrality (business effect)*	5	2			2		9
	10	10	10	10	10	10	60

\* Both of these were felt to include Billy Pieper's study purpose, to varying extents.

**NEXT MEETING:**

The next meeting was scheduled for Monday, August 15, 2016 at 1:00 PM.

**ADJOURNMENT:**

The meeting was adjourned at 2:52 pm