

TAX REVIEW COMMISSION

**MINUTES FOR THE FOURTH MEETING OF THE
TAX REVIEW COMMISSION
HELD AT 830 PUNCHBOWL STREET
DEPARTMENT OF LABOR & INDUSTRIAL RELATIONS ROOM 310-313
IN THE CITY AND COUNTY OF HONOLULU
STATE OF HAWAII, ON MONDAY, SEPTEMBER 19, 2016 AT 1:00 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, September 19, 2016.

Members Present: John Knox, Chair
Colleen Takamura, Vice-Chair
William Pieper II
Nalani Kaina
Vaughn Cook

Members Absent: Dawn Lippert and Raymond Blouin

Staff: Donald Rousslang, Ted Shiraishi, Titin Sakata and Noe Kaawa

Others: Randall Nishiyama, Department of the Attorney General
Ben Park, Senate WAM
Nandana Kalupahana, House FIN
Randy Hiyoto, House FIN
Joshua Lee, DOTAX
Peter Fritz
Jana Moore, CAN
Sam Lee, CAN

CALL TO ORDER:

Chair Knox called the meeting to order at 1:00 pm.

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 August 15, 2016 meeting and asked if there was any motion to amend or approve the minutes.

Commissioner Pieper moved the motion to approve the minutes of August 15, 2016 meeting with edits, and Commissioner Kaina seconded the motion. The motion carried unanimously.

COMMUNICATION AND PUBLIC COMMENTS TO THE COMMISSION:

Chair Knox asked if the TRC had any written communications or any public comment. He asked the audience who wish to address the TRC, please confine comments to three minutes.

Mr. Fritz said minutes of the meeting should be posted to the website within 30 days even if not yet approved minutes.

Mr. Nishiyama agreed minutes even in draft form should be posted to the website within 30 days after a meeting.

Chair Knox asked for the draft minutes to be posted the website within 30 days after a meeting.

ROLL-OUT OF NEW ONLINE TAX SYSTEM:

Mr. Joshua Lee briefed the TRC on the roll-out of the Department of Taxation's (DoTAX) new online tax system.

ACTION PLAN FOR ADDITIONAL TAX REVIEW COMMISSION ANALYSIS OF THE GENERAL EXCISE TAX ISSUES:

Chair Knox said from the previous meeting, the TRC agreed to devote the bulk of their budget to the package of studies about equity and new revenue sources. However, the TRC also discussed spending substantial meeting time examining GET issues and perhaps allocating a small budget for this purpose.

Chair Knox suggested that the TRC discussed the GET issues before addressing the larger consultant study in case the GET study raises budgetary issues that may affect the TRC's decision on how much to allocate to the equity and revenue source study.

Chair Knox said that he tried to discuss the GET issues with DoTAX staff. However, DoTAX staff said needed a better understanding of what the TRC wanted to do. He reminded that the TRC members were invited to email further clarifying thoughts, but none did.

Chair Knox invited DoTAX staff to come up front and listen to any thoughts the TRC may have regarding details on the GET study, and then have the staff participate in questions and responses to ensure there is enough clarity that some sort of blueprint for action and specific schedule of activities can be worked up for the next meeting.

Chair Knox asked if any Commissioners have specific goals or a more definite framework for the GET studies and how to do it. He added that he is looking for big picture approaches, and considering whether there would be budgetary implications.

Commissioner Takamura said during her interview with the Ways and Means Committee, they wanted something on GET exemptions/deductions. She added, unfortunately for this TRC, accurate data on GET exemptions/deductions will likely not be available until 2019. However, she felt the TRC should provide the legislature with a report, (1) an explanation of what these exemptions were, (2) an explanation of what these exemptions mean, and (3) an explanation of why these exemptions were created, whether it's a non-taxable income, an anti-pyramiding, or some other reasons. Commissioner Takamura believed that when the Legislature receives the GET exemptions/deductions data, they will need to figure out what it meant.

Commissioner Takamura added that Dr. Rousslang's study "Tax Expenditures in Paradise" is a good start for the TRC, but she thought the GET study needs to be more concise and readable. Since the TRC couldn't do a quantitative report, it would be a qualitative report.

Commissioner Cook said that was a good idea and agreed that Dr. Rousslang's report would be a good start since all the expenditures whether listed as exemptions or deductions were there. He mentioned that the book "Taxes of Hawaii" gave short descriptions of GET exemptions, but agreed with Commissioner Takamura's suggestion of researching more details on the GET exemptions and provide the detailed information to the legislature. For example, the subcontractor deduction from "Tax Expenditures in Paradise," page 554 of State Tax Notes, was one of the largest tax expenditures, which was the subject of legislation a few years ago when the subcontractor deduction was temporarily suspended.

Commissioner Kaina asked isn't most of what's being discussed in the statute except it may not be in the right format. She added that it would be a huge study in terms of the legislative history of all GET exemptions.

Commissioner Pieper said maybe the TRC could take certain social motives and break those down, for example, income redistribution. The TRC cannot do all of the tax exemptions. He asked if clarifying the motives behind the exemptions would help the Legislature makes decisions within the tax code.

Chair Knox said he wondered about the implicit cost of doing such study, given the limited remaining funds after the intended larger study, and asked whether a graduate student could do the GET study or whether it would require a more sophisticated analysis by a professor or other consultant who would charge more.

Commissioner Takamura said she herself is unsure why some of the GET exemptions/deductions were available. She felt doing a chart that clearly points out items that (1) were non-taxable, which includes life insurance proceeds and gifts, (2) another column for anti-pyramiding, and (3) more columns for other categories. She added it's similar to providing a cheat sheet.

Commissioner Cook said he appreciated that Dr. Rousslang's article was the tabular format. He said that the GET issues are one of the big issues that the TRC has talked about and voted for in the straw poll. The GET represents well over 50% of Hawaii's general fund tax revenue. It would be ideal to have simplicity in a tax system. He added that from the table in Dr. Rousslang's article, he sees complexity, hence, he asked is there a reason why the TRC would not say get rid of all the deductions. While that may be tempting, is there a reason why the TRC shouldn't. GET is such a huge part of our tax system and these items add complexity, so is there a way to add simplicity and a way to get the GE rates down.

Chair Knox said he noticed that one pattern for recent TRCs had been to procure major economic studies and then go quiescent until results start coming in. However, he thought that the GET issues might be an ongoing project that involved presentations and discussions to keep the TRC meeting regularly rather than going quiescent.

Commissioner Takamura said the TRC should keep abreast of what is going on with the consultants. She asked if the TRC would receive updates and make comments/suggestions to the consultants.

Chair Knox said he hadn't had any comments or suggestions from TRC members, whether the TRC would do a parallel track in which the TRC would invite experts to do presentations or whether the TRC would procure a small study on the GET topics at a level which doesn't financially take away from their main study. He added that the TRC could have shorter meetings.

Commissioner Cook felt that the TRC has been rushing, spending more time now trying to retain professional services to conduct studies, but once the TRC retains consultant for the studies, he would be open to more readings and having shorter meetings.

Chair Knox suggested Commissioner Takamura works with DoTAX Staff in determining what could be done by a consultant with a budget of \$25,000 for a GET study, and what other topics should be discussed by the TRC. He also suggested DoTAX's help if time permits. However, if determined not feasible, he requested an alternative plan.

EXECUTIVE SESSION:

Chair Knox adjourned to go into Executive Session at 1:45 PM.

CALL TO ORDER-Reconvene

Chair Knox called the meeting to order at 2:58 PM.

APPROVE SOLICITATION FOR PROFESSIONAL SERVICES:

Chair Knox asked for a motion to form an investigative committee consisting of Commissioner Kaina, Commissioner Pieper, and Commissioner Takamura regarding the notice to providers of professional services.

Commissioner Cook moved to approve the formation of the investigative committee, and Chair Knox seconded the motion. The motion carried unanimously.

OTHER NEW BUSINESS:

NONE

RESIGNATION OF CHAIR AND ELECTION OF NEW OFFICERS:

Citing personal health reasons, Chair Knox submitted his resignation as Chair of the TRC and opened the floor for nominations of a new Chair.

Commissioner Cook nominated and moved the motion to appoint Commissioner Takamura as Chair. Commissioner Pieper seconded the motion. The motion carried unanimously.

Chair Takamura nominated and moved the motion to appoint Commissioner Cook as Vice Chair. Commissioner Pieper seconded the motion. The motion carried unanimously.

NEXT MEETING:

The next two meetings were scheduled for Monday, November 14, 2016 and Monday, November 21, 2016 at 1:00 PM.

ADJOURNMENT:

The meeting was adjourned at 3:03 PM.