

## **TAX REVIEW COMMISSION**

**MINUTES FOR THE SEVENTEENTH 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 TUESDAY, OCTOBER 24, 2017 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 October 24, 2017.

**Members Present:** Colleen Takamura, Chair  
Vaughn Cook, Vice-Chair  
John Knox  
Nalani Kaina  
Billy Pieper  
Raymond Blouin

**Members Absent:** Dawn Lippert

**Staff:** Titin Sakata and Noe Kaawa

**Others:** Randall Nishiyama, Department of the Attorney General  
Randy Bauer, PFM Group Consulting LLC  
Donald Rousslang, Department of Taxation  
Madelaina Lai, Department of Taxation  
Megan Johnson, Office of the Auditor  
Daniel Grebence, Tax Foundation of Hawaii  
Madison DeLuca, Hawaii Appleseed  
Katarina Ruiz, CAN  
Peter Fritz

### **CALL TO ORDER:**

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

### **APPROVAL OF MINUTES:**

Chair Takamura said the first order of business was the approval of the minutes from the September 12, 2017. She asked if there was any motion to amend or approve the minutes.

Commissioner Pieper moved the motion to approve the minutes from September 12, 2017 and Commissioner Blouin seconded the motion. The motion carried unanimously.

**DISCUSSION AND APPROPRIATE ACTION RELATING TO THE RESPONSE FROM THE ATTORNEY GENERAL REGARDING TAX REVIEW COMMISSIONER'S LETTER REQUESTING AN OPINION AS TO WHETHER CONSIDERATION OF TAX AND REVENUE ADEQUACY EXCEEDS ITS AUTHORITY UNDER THE HAWAII CONSTITUTION AND STATUTES:**

Chair Takamura said the response letter was circulated to all TRC members. Basically, the AG gave an opinion that the TRC was within their scope for the consideration of revenue adequacy. What the TRC was doing was within their scope under the constitution.

She asked if there were any comments to the response letter.

Commissioner Blouin said the letter was well received.

Commissioner Cook said he wanted to thank the AG for responding to the TRC letter timely and asked if the response letter was posted to the website?

Chair Takamura said no.

Commissioner Cook asked if there was any action needed to get it posted to the website.

Mr. Nishiyama said no.

Chair Takamura said the response letter would be posted to the website and was available at the meeting.

**DISCUSSION AND ACTION ON THE FINAL REPORT FROM THE PFM GROUP ON STUDIES OF HAWAII'S TAX SYSTEM:**

Chair Takamura said there were written questions sent to Mr. Bauer and didn't think there was a response from him yet.

Mr. Bauer said they had gotten it twenty hours prior from Mrs. Sakata and obviously haven't had the chance to look at it in depth, but could give an overall response on some of the questions. He said the original written comments they had gotten were primarily from Commissioner Knox was what they viewed as corrective in nature and emailed responses to those. They had prepared a draft to make those corrections and would respond to any items that were provided to them yesterday as well.

He said for example, Chair Takamura had asked about the impact of not exempting any pension income and they could provide what they know that to be in terms an estimate. Their perspective was that would be something they would recommend and would provide that dollar amount to the TRC. She also asked for clarification related to the pension obligations for the state and they provided details about that. He clarified that they don't know for certain what was going to happen with the state's economy and revenue over the next five year period where they were implementing a state increase in the employer contribution, but the perspective they intended to reflect was it was something the state could handle with existing revenues and obligations. As they had suggested, the other post employment benefits which was primarily health insurance for

retirees was a little bit on the higher slope for Hawaii to deal with because you're starting from having less of a base to work from which was what they had reflected on some of the possible revenue changes.

He said to the later comments they received related to the letter from the Hawaii Appleseed Center for Law & Economic Justice in which some he believed some information was already passed along in regards to the calculations related to the Hawaii individual income tax and agreed with that when you take into consideration various credits, exemptions and deductions that they still believe that leads to basically a balance for low income residents of Hawaii that they don't pay individual income tax.

He would note that some of the comparisons that were made in the following critique would wait until Dr. Wheeler had a chance to comment on that, was using a commonly cited distributional analysis report by the Institute for Taxation and Economic Policy (ITEP) and was a fine report but it was not an apples to apples comparison. Their distributional analysis did not include the individual elderly over 65. It also a combination of singles and families whereas the analysis that they replicated, that the District of Columbia uses was representative family of three. You were going to have some apples to oranges comparisons in these sorts of studies because they were not done with the same base. The IHF analysis was a 2015 analysis did not reflect some of the tax law changes they sought to include in their analysis as well.

Chair Takamura said she had a question about the pension and in Mr. Bauer's response, he had written implied that the TRC subject all pension to taxation, but that wasn't the intent of her question, the portion about taxing pensions over \$25,000. She said he had written if the TRC wished to subject all pension income to state tax it would materially increase additional revenue. She said she didn't asked what would happen if all pensions were taxable, what she asked was if all pensions were considered including 401Ks and other pensions that were taxable and if you looked at that whole bundle, and if all of them non-taxable up to \$25,000 and the rest being taxed. She wasn't saying that all pensions should be taxable. She was trying to make a point of an equality thing, a fairness thing since some pensions were taxable and some aren't, and what would happen if we looked at all retirement income.

Mr. Bauer said he would have to consult with the team and wasn't sure if they would have data to determine what that would be for taking into consideration 401K plans because he wasn't sure if that data had been gathered.

Chair Takamura said she didn't want it in the report that the TRC was thinking about taxing all pensions and that wasn't the intent. She felt it was misleading to have that if the TRC wanted pensions to be taxable, the revenues would materially increase because we really didn't talk about that.

Mr. Bauer said he apologized if he mischaracterized what Chair Takamura was asking and if that was actually in the report, they would modify that.

Commissioner Knox said he was contacted by a state agency that was interested in the carbon tax portion of the report which he thought would get some attention and asked Mr. Bauer if they were going to be making any changes to anything that was written in the carbon tax section of the report.

Mr. Bauer said he didn't think so. Obviously, that's a section of the report that was different when talking about changing existing taxes; modifying the rates, modifying the base. This was a tax that doesn't exist so there would be a fair amount of latitude that would exist on how such a tax would be implemented, both in terms of the base of the rate and the point in which that tax was levied. Those were all open questions and there wasn't a lot of specificity that could be provided because it was fair game.

Commissioner Knox said he was just asking so if he directed them to the current draft that the section on the carbon tax was going to remain pretty much the same as the final draft.

Mr. Bauer said he believed so since that hasn't been any particular change that would require them to modify it.

Commissioner Knox asked at what point will PFM get their final report in?

Mr. Bauer said as soon as possible. Their goal was to give the TRC what they needed and what they have gotten to date would hope by the end of the week turn around the responses.

Commissioner Knox said he mentioned an email responding to some of those comments or questions that he raised last month.

Mr. Bauer said he believed so, if not it was internally and they will respond to each of the comments and provide a modified draft to reflect those.

Commissioner Knox said to what was distributed to the TRC and included the DoTAX calculation response to the Hawaii Appleseed comments, and was curious if DoTAX would like to explain that.

Mr. Bauer said before DoTAX explained that, he did provide that to Dr. Wheeler and he did say that that aligned with the way he had done the analysis related to the Hawaii individual income tax.

Commissioner Knox said would this be the time to ask DoTAX to summarize and explain the implications of their analysis or was it some other time on the agenda.

Chair Takamura said it may be under written comments and would come back to the letter.

Commissioner Blouin said the letter meaning the one from Hawaii Appleseed letter? Why does the TRC have to come back to it later, why not address it now?

Chair Takamura said it was a written comment.

Commissioner Blouin said it related Mr. Bauer (PFM report) and if he understood correctly of what was said, Mr. Bauer was going to go back to review the letter and when his team member returns from leave. At first glance, the difference in the tax equations appears to be a difference of details of review, right? Differences if he understood what Mr. Bauer said correctly appeared to be different references or reference points which resulted in the different points of view or different equations.

Chair Takamura asked if Commissioner Blouin was talking about the calculations.

Mr. Blouin said there were two things going on here. He said he was discussing a couple of points of reference that was made to what the ITEP determined was the burden of taxes and thought a large portion had a different frame of reference, but the reference to the analysis that DoTAX did which they agreed with specifically around the Hawaii individual income tax and what the liability would be for lower income taxpayers. What that one page laid out was the example for a hypothetical family with an AGI of \$25,000, either a renter or non-renter, and what their AGI would look like with the various deductions and credits they would take, and what their ultimate tax liability would be. That was a more specific analysis as opposed to the broader tax burden analysis that he was referring to from the ITEP study versus the study they did.

Commissioner Blouin said the only reason he brought it up was because the TRC would like to have the report finalized soon and getting the responses on the Hawaii Appleseed point of view would be well received. A lot of the responses on the Hawaii Appleseed letter were positive and were already in the report and so the quicker Mr. Bauer could return things to the TRC, the quicker the TRC could respond back.

Mr. Bauer said Commissioner Blouin's point was well taken but he wasn't planning on including comments or the critique in the actual written report because they haven't responded to any of those kinds of critiques unless they felt it was valid points. He didn't feel amplification was needed in the difference in the numbers that were generated by the ITEP report or their report and he didn't think they had to do anything with that specific critique about the low income taxpayer because they don't think it changed materially anything that went into the report. He said they won't hold anything back what they give the TRC as a final report unless they think there was something materially needed to be changed.

Commissioner Blouin said for reference, it might be nice to have that in addition to their response as part of the TRC report, our distribution packet.

Chair Takamura said it could be put in as correspondence.

Commissioner Knox said he would like to follow up on that because he thought that one of the things he was trying to indicate last time was he saw the report as then written as unclear at times of the fundamental question of whether we had a regressive or a progressive overall system, and it seemed be that the answer was a little bit nuanced because it depended on whether you were considering the feds and the local in it.

He said he was just pushing for something that was by the lead paragraph if you were a journalist a summary kind of statement and it did seem that Appleseed was contesting the summary statement that overall including federal, we had a somewhat progressive system at least at one end of the income spectrum. He said it was fundamental and hoped that somewhere here we could summarize it clearly so that it wasn't one statement here then something else was contradictory there and in the appendix raised something else. If it was possible to get clarity in addressing that as well, he would love to see it.

Mr. Bauer said in response, tax structures were complex and there were moving parts that impact a variety of taxpayers in different ways. There weren't many bright light tax systems that were

so regressive or so progressive that one could definitively say it was one or the other. Hawaii has a unique structure as any and they tried to part some of that uniqueness in a very progressive individual income tax and what he believed to be a very regressive GET as the two primary revenue sources. So it was hard to definitively say what that meant to taxpayers. For example, the ITEP study which didn't take into consideration the senior taxpayers and included larger than this family of three, and it had a different look to it. He said to Commissioner Knox that it would be hard to give the TRC a nice wrapped package to what Hawaii's structure was because it does differ depending on who you were or where you were, all of those factors.

Chair Takamura said her understanding was the TRC would not get a summary that said our structure was progressive or regressive.

Commissioner Knox said then the clear statement really was Mr. Bauer can't say that, you can't come to a conclusion and then that was the most definite thing he should say.

Commissioner Kaina said what she was hearing him say was it would depend on so many different conditions that one couldn't make an assumption whether our entire system was progressive or regressive, and it depended on your perspective. The Hawaii Appleseed Center was a center for law and economic justice; you're talking about lower income individuals and their analysis was starting from that perspective. She thinks that whether they disagree with the analysis that PFM Group had provided but it doesn't discredit their ability to disagree with the analysis because it would always be about the initial perspective for which we're starting from. That was why we had a TRC to look at that and make that analysis about what do we think based on the information that was provided and felt that PFM was not able to provide that conclusion.

Commissioner Blouin said Commissioner Kaina was right. He said to Commissioner Knox that the TRC was going to get differences of opinions and the reason he zeroed in on the numbers was there was a discrepancy and was glad to hear we would get to the bottom of which point of view each of those equations were. He said other than that we were going to have a difference of opinions and as he previously mentioned, he was happy that there was also a lot of positive in the letter too. So assuming the TRC was on the right road in the journey of what they were doing was the result of this project.

Commissioner Knox said that was fine and if the reality was Mr. Bauer simply cannot make that sort of statement, he was concerned as he read the report, sometimes it seemed to be saying one thing and sometimes it seemed to be saying the opposite thing, and he just wanted to eliminate that.

Commissioner Blouin asked Commissioner Knox if the report should be reviewed one more time from his point of view.

Chair Takamura said she guessed if you looked at each type of taxes too, like they said, the GET tended to be regressive and the income tax tended to be progressive. I guess you couldn't put them together and say one way or the other. There were too many components to tax.

Mr. Bauer said he thought that was the message they sent and that those two taxes together were complimentary, and in some ways they ameliorate some of the advantages and disadvantages on both sides of them, but you have to think about those other parts too. In Hawaii's case, those were two such big components because a lot of other states had at least a third component that

was a significant share and none of your other shares was ten percent of the revenues, but the other ones too, they still had interactions like excise taxes tend to also be somewhat regressive although they also had characteristics, some were related to "sin" taxes. So in putting it all together, it's hard to just do a definitive conclusion on almost any state when you're jostling together so many components parts.

Commissioner Knox said he would just leave it and hoped in the final draft Mr. Bauer would kind of look for those points to see they contradict each other and get them out.

Mr. Bauer said they were just one input but the TRC had to write a report and hopefully you could do it better than they could. They were just a piece of the puzzle.

Chair Takamura asked Mr. Bauer if by the end of the week the TRC should get the revised final draft.

Mr. Bauer said absolutely and they would provide the TRC with a memo to answer the legitimate points that were raised and comments received. He would also find out how long it would be before Dr. Wheeler could provide some input, but for the draft itself, he would have Dr. Wheeler provide him with what he needed to know so they could give the TRC that final draft. He suggested by the end of the week or at least by the end of the month.

## **DISCUSSION AND APPROPRIATE ACTION RELATING TO THE TAX REVIEW COMMISSION'S REPORT AND ITS EVALUATION OF THE STATE'S TAX STRUCTURE AND RECOMMENDATION ON TAX REVENUES AND POLICY:**

Chair Takamura said she had DoTAX provide an updated summary of recommendations made by prior TRCs, there was the PFM draft report, and studies done by Dr. Rousslang and Mrs. Sakata as well as prior reports and studies to look at.

She said she wanted to start this exercise to start getting the TRC's recommendations together so it could be put into the report at least by the next meeting. She said if there were any thoughts to be included in the report so the TRC could have a discussion on the recommendations for the final report. She asked if anyone wanted to bring up at that time regarding any recommendations for the TRC's final report.

Commissioner Cook said when Chair Takamura started talking about drafting a report and formed the report drafting committee the idea wasn't that the committee would draft the report because that was the responsibility of the TRC itself. We talked initially about what were the proper roles of the committee and thought right now in the process was the PFM report, some of the other reports that were drafted, and had a lot of other sources including prior TRC reports to use a information and sources for what the TRC would like to put in their report to the legislature.

He said it was a good time now, not the drafting committee, but for the whole TRC to start considering and maybe take prior recommendations as well as the PFM report, some of the other reports and jot down what they thought were important topics to include in the report, and get together so the TRC could start talking about it. He said he wanted to hear what his fellow TRC members wanted to do as the first process of coming out with recommendations.

Commissioner Kaina said one of the things the TRC had to agree on was what the goal with those recommendations was. Was the goal of those recommendations to provide opportunities for the state to look at other ways to increase revenues and did they believe that the tax system was not adequate to support our needs in the community. If it was that, then the conversations around what should the state do around potential revenue discussions which was what we first started talking, but as a TRC we had to figure out ultimately what was the goal of the TRC so that the recommendations could be shaped towards that goal and was not sure that there was much clarity as a commission of exactly what they wanted to do.

She said it could be something else and she heard from Chair Takamura early on before she was the chair about the deductions that were there and all the confusion around that piece. She said ultimately, what did the TRC wanted to produce in that report so the recommendations could be formed. A broad based approach and review of everything the TRC has recommended in the past may not be relevant without the right contextualization for where we were in the current day and age. She thought that maybe a large exercise if the TRC was willing to take that on, but she was trying to figure out exactly what the TRC's goal was.

Commissioner Knox said he thought he wanted to sort of compliment that and in the same spirit wanted the TRC to think about strategy in coming up with recommendations for their goal. By that he meant, for example, the last TRC sort of accepted a strategy of not going through the previous PFM report endorsing particular things, but mostly looking at the big question of the unfunded liabilities and recommending a Simpson-Bowles type commission as opposed to a bunch of very specific recommendations on different parts of the tax code. He said he like the list, taking from PFM but only taking certain things and that was another thing the TRC could do. That was a different strategy. The TRC could go through the PFM report and all the other reports the TRC had and say we like this or we like that.

Chair Takamura said she thought it was hard if the TRC gave them a whole package. It was hard for the legislature to enact a package. There would be too many opposed or supporting sides to it. Her feeling was the TRC won't get very much through if they were given a whole package, but if they were given ideas of how they could maybe make the tax structure a little fairer, equitable or ways to increase revenue. She said to her, it was to give them ideas to implement so they could make the tax structure better for Hawaii. That was her feeling of what the TRC should be recommending.

Commissioner Blouin said he didn't disagree with what's being said. He believed a summary was important and simple. The TRC had accomplished a lot in the last year and did have priorities in the minutes already. The TRC early on did identify what those priorities were and approved, and agreed upon. He thought a very simple summary statement to the legislature was in order, list all the TRC accomplishments for the past year done in a chronological manner, attach the reports that significantly reflect what the TRC was thinking and be done with that.

He said he thought the recommendations were already there and it was good to look at the previous TRC reports but most definitely in the TRC minutes and history the TRC had already summarized a lot of those reports and read some of those reports in the past, and had some comparison notes, very specific to those reports of the past. He said he agreed it would be a nut and bolt kind of meeting maybe more than one and subcommittee meetings that could help summarize, and thought the TRC was ready.



Chair Takamura asked if there were any other comments.

Commissioner Pieper said he agreed too but didn't think there was a silver bullet as far as what the TRC could create. He said to him, the TRC was a resource and shouldn't opine on anything. He said he thought the TRC should take that data, format it in a way that was easier to digest and present it. He said if he were a legislator, he wouldn't want the TRC telling him what to do because anything the TRC told him that he picked out, for example, the TRC did the menu type option where the TRC would say this sounded good, that one sounded good, they would have to pull that out and run it back through a comprehensive model. It wasn't going to be he could make a decision and say the carbon tax looked good so let's press play. That would impact so many other things. If he had to choose a goal, it would be to be the resource and summarize it in a way that was easy to digest, easy to understand for a legislator that may have a limited amount of time in a day to absorb that data and then make a smart decision about it.

Commissioner Knox said he did think the TRC had implicitly two goals. They were to explore ways to make the tax system fairer, that was less regressive and possible ways to raise more revenues. He specifically was concerned about and agreed that if the TRC said they should do this, this, and this and not this, this and this was going to be problematic. He would say a higher level there at the revenue level we remain at a higher level and maybe look at the Simpson-Bowles Commission recommendation again, but the idea of the TRC was a resource providing reference information.

Commissioner Cook said he appreciated fellow TRC Commissioner Knox's memory and did recall the two goals that were talked about and there was another goal from his point of view. It was not just looking at ways to raise revenue but addressing the issue of adequacy in terms of the unfunded liability. He said that was a big part of what the TRC had PFM look at and what the TRC was looking at, and the AG's letter looked at whether the TRC should be addressing that. He said one of the things he has been uncomfortable with and has mentioned it before, was he didn't want to be perceived of taking the political position telling the legislature the way to address the unfunded liability was to raise taxes and cutting expenditures was another way to do it. He said he agreed in general with the sentiment that Commissioner Knox said and he would phrase it as looking at the issue of the unfunded liability.

He said one other thing the TRC was looking at early on but didn't get too much into it was because of the TSM program was broadening the base and lowering the rates, look at GET with a lot of the exemptions that had increased over the years and seeing whether those could be reduced, simplify the GET and broaden the base and either keep the rates low or lower the rates. Unfortunately that didn't progress and that one was one the TRC was interested in.

Mr. Bauer said he wanted to make a comment on that and Commissioner Cook's point was well taken but Hawaii was one of what's seen as kind of the benefits of the GET was the broadness of the base and there was the issue of pyramiding and Hawaii certainly had more pyramiding of taxing inputs to an ultimately finished product. If the TRC looked at other states in terms of when they start exemptions, they really erode their base and Hawaii doesn't nearly have that kind of base erosion that was found in other structures. If one looked at those kinds of exemptions, one would really be looking at changing the mix and probably reduce revenue which was the opposite of what happens in most states when one looked at exemptions because most of them were business to business exemptions.

Commissioner Cook asked Mr. Bauer if he was talking about anti-pyramiding type exemptions.

Mr. Bauer said yes, most of the exemptions had that basis not saying they all did, but probably most of them did.

Commissioner Blouin said he was a little confused and was going to make some statements. He said the TRC did not discuss cutting expenditures to help with any shortfalls, and all along in the TRC's past, had often made suggestions of different taxes and how anyone could assist with the shortfall. He said legislators don't have any problems raising taxes on their own at this time and had significantly taxed our tax situation here in the last few months. He said he thought the legislators would be receptive to suggestions and their either going to accept it or not.

He said all along with this TRC and his thought that the goal and objective was to in a very empathetic way come up with new exciting ways and creative processes which he felt the TRC had. So when he looked up over the horizon and sees the final report, he was very hopeful to see suggestions from everyone who was reading the report to let them know that the TRC had taken this task seriously, and that there may be some validity to those suggestions, some maybe adopted and some may be adopted in a different way. If there were ramifications the TRC knew of in the course of their discussions, then they should put that in their report too. If they clearly understand that there might be a ramification like what was referred to earlier, he thought a legislator would be pleased that this TRC was thinking of as many things as possible when it comes to the subject.

He said he had to say that because in business, he was very familiar with cutting expenses to make the bottom line at the end of the year which was very difficult to do and the TRC hadn't discussed that at all but was excited about what the TRC had accomplished in the past year and he believed the strategies were in the minutes and believed they were in the notes, and agreed with some rising bows. He asked was going to be a report that was one hundred ten percent accurate, probably not but it would be about ninety six percent efficiency in the report because there was a lot of good data and a lot of good contributions from those sitting at the table. He said in the empathetic situation, there was bound to be differences of opinion but ultimately, everyone wanted to do the same things and there was something good to come out of that.

Commissioner Kaina said she wanted to throw out a couple of things she thought needed to be included into the report at some level that was more general, not about specific revenue. She said the two things that caused her to change the way she thought about taxes and the way in which she looked at the issues was the conversations around wealth disparity versus income disparity. The slides that Dr. Colby showed the TRC about the fact of income disparity in Hawaii were fairly minimal as compared to the rest of the country, but it's the wealth disparity that was impacting us.

She said she believed there was a missing ability to do certain types of taxation around wealth versus income that they as a TRC had not had a chance to really discuss. She didn't know what the solution was but thought it was something the TRC needed to bring a salient point in their report to the legislature to look at because it wasn't something the TRC addressed directly and it impacts so many different areas around affordable housing, it affects what we do in terms of state policies and it didn't know how much the TRC had been talking about that particular area because when we look at the three pillars used in taxation, we see GET, income tax and the small sliver of corporate tax as Mr. Bauer has talked about, and what happens to that group not

receiving any kind of ongoing income in the state maybe just paying GET but yet has high wealth within the state in terms of the resources they may be utilizing. She said it's that one piece that kept nagging in the back of her head that she had been thinking about ever since Dr. Colby did that presentation that somehow the TRC needed to have some kind of discussion in their report about that, at least bringing that point to their attention.

She said her second point was behavioral economics. The idea of what's the tax saliency and what would people accept based on the notion of behavioral economics. The difficulty with property taxes was that it was a onetime payment and seeing that large charge even though we've been told our rate is kind of low. She said thought it was the behavioral economic piece the TRC could bring to the attention of the state when looking at what that impact was. There were some things here in terms of the lessons not so much about the specific recommendations that had come through the reports that have been presented to the TRC over the course of the year that were considerations that the TRC should raise at some point, kind of at the forefront because it doesn't get to the specifics of rights or wrongs of different policies but things she thought weren't necessarily talked about.

She said those were the two items she thought was important and a third item she thought about was the date of the last changes to the rates, when rates were raised. She thought having a kind of schema on that. She knew for the GET there were recent increases based on the rail but before that there was nothing. Therefore, having a schema to look at when was the last time the state had raised taxed and what would that look like? She thought it would also give a picture for an analysis looking at what the TRC was trying to do. For her, those three things she was thinking about. As she said, was much more at where were the considerations versus giving ten revenue generating ideas at that point.

Commissioner Cook said he like the idea of where the TRC was. He agreed that the TRC was in a pretty good place with getting data and now, the question was what the TRC wanted to present in their report. He said speaking as just one member of the TRC, what he sees and thought about coming into this process was looking at past reports, looking at their broad mandate seemed daunting to look at the whole system of taxation and making recommendations realizing that was too broad. The TRC did talk about what the TRC could do like have studies to look at certain issues, talked about a few of the issues the TRC wanted to address including GET but didn't quite get there with the study.

He said he looked at it was the TRC might have its overall goal or message, but in addition to that, a good opportunity for looking at the system broken down by income tax, GET, administration, other types of taxes and if there were things that had come up as we've done the TRC or even looking at past TRCs. It was a good opportunity to either revisit or to make a recommendation. For example, one of the things that came up by the PFM discussion was the number of proliferation of tax brackets. Hawaii had more tax brackets and very shallow tax brackets, was that something that could be a recommendation to. He said from his point of view that was a possible recommendation to reduce the number of tax brackets. That would be an opportunity in addition to an overall message of "hey, we're concerned about", for example, about the unfunded liability and there were other issues the TRC had come across, and had recommendations but that's how he was looking at it and thinking.

Mr. Bauer said that was a good point, about the brackets and they did raise that in their report. If the TRC was looking for areas conceptually where we were different from a lot of what may be

considered best practice structures one would get to a fairly high percent of income taxed at a lower level income than most states.

Commissioner Knox said he liked a lot of Commissioner Kaina's ideas but it sounded like the specs of a new study and that raised the question for the next TRC, and wondered if they wanted this report to include any section based on their experience, what they would want to recommend to future appointing authority and/or future commissioners.

Commissioner Cook said he would recommend Dr. Colby's presentations at the beginning because they were educational and helpful.

Commissioner Knox asked if the TRC wanted to go into that.

Chair Takamura said that was a good idea. She said if someone had told us in the beginning instead of reading prior reports, talked about the components of a tax structure and actually explained to the TRC would have been helpful. It may have shaped how the TRC did the report, maybe not. We've learned a lot as we've gone through the process and talking to others that had gone through the process helped too.

Commissioner Pieper said he thought the report triggered some of the questions which triggered another study like the income versus wealth disparity. That's huge and would we tax our way around that and how you would change the tax system to address that would be difficult. That came up for him because of the report.

Commissioner Kaina said it shouldn't be discarded and not make the point of consideration for coming out of this TRC. She didn't think it would be a full recommendation of what should be done. She doesn't think the TRC talked about that as a factor in considering one of the first things the TRC talked about was the exporting of taxes and if we assumed and maybe it wasn't the right assumption, but other than retirees, most of those individuals not receiving income may not be full time residents or whatever the issue was, that was really the heart of what she thought was the TRC's initial questions, but having a metric to figure out how to formulate that study would have been helpful. Providing that information to the legislature helps them because they could commission other studies without the TRC or look at things in slightly different ways by having some of that data available which Dr. Colby has generated.

Mr. Bauer said one comment on the income-wealth item and said if they didn't make it clear Hawaii was strikingly different from most states with the whole issue of income versus wealth taxes because of the way we fund K-12 education, but the counter to that in a lot of states was that the property tax was the proxy for wealth was probably imperfect as well. He said those were big issues to tackle and agreed with them with the TRC it was a gray area for discussion or another study.

Chair Takamura asked the TRC what they would like to do for the next meeting. All of the TRC couldn't write the report, they had a writer but would edit. May be they could have Dr. Rousslang gather basic information for the report so the TRC could look at it, edit, and make additions or subtractions.

Commissioner Kaina said to help narrow it down, was it the goal of the TRC to identify four or five items from the PFM revenue report as things the TRC recommends then would the TRC

have a conversation around looking at the recommendations that the PFM Group had around revenue increases to say here was the top four the TRC thought was best or was it going to be more of a general policy conversation around these areas the TRC felt should be looked at and there was the information in the PFM report but the TRC was not going to recommend specific items. She said there were different ways to approach that Chair Takamura and thought it was a question of how she wanted to approach that or how the TRC wanted to specifically address each one of those areas. It give the TRC more of a focus. She said the TRC could do both but they needed to make sure they were on the same page in terms of coming into their next meeting for the clarity piece.

Chair Takamura said she appreciated the paper report and thinks there was a lot of good information, thinks there were other things also talked about that could actually improve the tax structure for Hawaii. It may not be four or five things from the PFM report. It could be a list of several things and they needed to be brought to the table so the TRC could discuss it and decide what the TRC thought as a whole.

Commissioner Knox asked how the TRC would do their input. We're they going to email thoughts and questions in coming weeks? We're they going to come with their lists then air them among themselves at the next meeting?

Chair Takamura said it could be brought to the next meeting but it would be kind of late so maybe through an email.

Commissioner Cook said he was hearing a lot of good input right here and what he was willing to take some of his thoughts in an outline format and if everyone else would like to do that then they could exchange that, and it could take more than one meeting, narrowing down then having another meeting or two.

Commissioner Knox said if we were going to do that, it does seem the decision Commissioner Kaina raised that he tried to get to himself ought to be made now and his own inclination was to do generally what the last TRC did on the OPED thing, which was say that it was because it wasn't within the TRC's scope to recommend expenditure reductions. We can't do that, that's what the previous TRC recommended, made a lot of sense and that being one big recommendation. He said they may want to tinker with exactly what they recommended in terms of the Simpson-Bowles.

He would think the TRC would be very careful about saying particular PFM recommendations were ones the TRC endorsed, that the carbon tax proposal was such a major potential revenue generator and he wasn't saying it was going to be productive to say that the TRC recommended it, but he was thinking the TRC might recommend a much more detailed legislative examination of it taking the analysis as a starting point and suggest they look at it more carefully because of its revenue importance. That's the sort of balance that he was thinking that would make sense, not too many specifics, big general thing but a few specific like the carbon tax.

Commissioner Blouin said so the word Commissioner Knox was looking for was "considerations" rather than actual recommendations and what was the question he referred to that Commissioner Kaina brought up?

Commissioner Knox said the question of whether the TRC was going to go into the PFM report and endorse 1,7,3,13,19.

Commissioner Blouin said the TRC has done a good job at prioritizing things and agreeing on priorities and strategies, and he thought the TRC could agree on which considerations were most significant to use.

Commissioner Kaina said she would recommend that since there was a two week period which made her nervous between now and the next meeting. She recommended that there were two categories. One category was what the most prevailing learning experiences were and if each member could come up with two, three or four points that were significant and highlight that in a summary format in the report of what they want, something they would want the legislators to pay attention to that could drive that kind of policy thinking around whatever knowledge the TRC got and all the thing they had. Secondly, was those considerations given everything seen, what would be the things the TRC thought were actions that the TRC would be comfortable with recommending

She said as a way of breaking it out, she mentioned two different things. One was the learning, what were the things we've learned during this experience that people need to be aware of in terms of the data pieced and those pieces around the recommendations of what the TRC thought were going to be effective or efficient to go forward with.

Commissioner Blouin said he agreed and thought the whole TRC should come up with suggestions for the introduction and conclusion because the TRC needed to share that this TRC had review things in detail. In the introduction, the TRC should talk about the housekeeping items like good attendance, made good contributions, had good intentions with details, we're proud and need to set it up. We've taken the challenge seriously and we've worked hard for them. In the conclusion, that was the shoyu chicken and rice at the table for everybody to walk away with something.

Commissioner Cook said what he was hearing and what he was thinking was an outline of how the report looks and we've had the outline done earlier, but we're talking beyond the intro, talking about a section that focused on general overall issues the TRC wanted to raise. From his point of view, the issue has been referred to as the elephant in the room, it's the unfunded liability. We had committed more to spend in the future then we have income coming in, and thought the PFM report addressed that. He viewed that section as an overall focus. He seen just because he like to cover a broad area and below that could be specific recommendations that may just be good tax policy that prior TRCs reviewed that had come up in this discussion with the overall issue of adequacy, other things like the brackets, like the pensions and compliance issues. Organizationally, that's how he was seeing and hearing what was talked about.

Commissioner Knox said just to be sure was it feasible for ultimately, the chair to quickly summarize the questions for the TRC to respond to.

Chair Takamura said first of all was that the format the TRC was thinking of. She asked for TRC members to give her what their focus was. What Commissioner Kaina said, what they learned, what was important to them that came to the table and we came to this TRC to look at the tax structure. Give her what each thought was important about that process. She guessed the other one was what members thought were considerations for the tax policy for the state.

Commissioner Cook asked if it was like a laundry list of recommendations.

Chair Takamura said yes, like what Commissioner Kaina brought up about wealth disparity and income disparity. If you thought that was something the legislators should look at then that should be a consideration we should give them. It's not so much that they would do anything, that they had enough in our report to do something. It was something they could look and the impact it could have on our state.

Commissioner Knox what about what was learned in the sense of process for future TRCs.

Chair Takamura said that was the last part.

Commissioner Knox asked Chair Takamura if she could email the questions so the TRC could respond in the same way.

Commissioner Cook asked if it was okay to email that discussion.

Mr. Nishiyama said yes, it was the transmittal of information.

Chair Takamura said everything goes back to Mrs. Sakata by November 2, 2017.

Commissioner Kaina apologized to Mrs. Sakata and asked if she could compile the responses by similar ideas so they could have a group discussion for each of the key areas. She asked if November 2 deadline gave her enough time to compile the responses and if the TRC agreed, there could be small groups of TRC commissioners working to flush out details with respect to certain areas between now and the next meeting or could have smaller groups once it has been determined what the main concepts were so it doesn't need to be the drafting committee. Could that work and was that allowed?

Chair Takamura said getting back to the carbon tax, she spoke with Jessica, Commissioner Lippert's assistant since Commissioner Lippert was not going to be at the next meeting and asked if she could an opinion from Commissioner Lippert regarding a carbon tax.

## **WRITTEN COMMENTS ON HAWAII'S TAX STRUCTURE OR ITEMS LISTED ON THE AGENDA:**

Correspondence letter received from Nicole Woo, Hawaii Appleseed Center for Law & Economic Justice with comments to the TRC emailed October 22, 2017.

Chair Takamura asked Mrs. Sakata if she could explain the calculation.

Mrs. Sakata said the Hawaii Appleseed sent a letter to the TRC with comments on the PFM final report and what caught DoTAX's attention was on page 2. Hawaii Appleseed talked about income tax for a family of three earning \$25,000 and they calculated that they would receive EITC for the State of Hawaii, twenty percent of the federal amount of \$633.40. This was quoted in their letter, "according to the Department of Taxation, such a family would owe \$1,122 in income taxes" and then they pointed to our tax form.

She said it was not DoTAX's calculation of \$1,122. She personally calculated by starting with the income of \$25,000, the hypothetical family of three, assume they took the standard deduction of \$4,400 and took the personal exemption of \$3,432 leaving them with the taxable income of \$17,168 and their tax liabilities before credits would be \$638 not \$1, 122. Assuming they were a renter, would qualify for the \$150 renter's credit, be entitled to food and excise tax credit for \$165, so their tax liability after refundable credits would be \$323, apply the EITC, a non-refundable credit even though twenty percent of the federal amount was \$633, they could only use up to the tax liability amount of \$323, so the liability for hypothetical family of three was zero. If they were not a renter and somehow owned a home, their liability was still zero. DoTAX just wanted to clarify because in the letter it said "according to the Department of Taxation" was not true.

Commissioner Kaina said she went to the link they looked at and it was linked specifically to the 2016 tax table, and thought Mrs. Sakata's were correct but thought they were taking it solely from the material that was online and not the application of the EITC.

Dr. Rousslang said they were looking at taxable income instead of AGI.

Commissioner Blouin said somehow in the minutes it should reflect that contribution and attach it to their report.

## **PUBLIC COMMENTS ON HAWAII'S TAX STRUCTURE OR ITEMS LISTED ON THE AGENDA:**

Mr. Fritz said he often looked at the Concon reports and in talking about the Concon reports he thought it talked about the scope of the commission and appointing a commission every five years. As they should be aware, taxation was one of the most powerful tools available to every government to bring about social and economic change and the legislature in recent years has not had the time to address tax policy as code to bring conformance to the federal laws. This would remedy the situation and mandated a periodic review of Hawaii's tax laws from an overall policy standpoint.

He said he has attended a number of meetings and knew that the prior director was upset about the tax brackets mentioned in the report. From the standpoint this was one of the huge things that taxes people below the poverty line and it seemed to him if we were talking about economic change and providing people with additional funds to live or maybe provide housing then that had to be part of the focus of how to supply that to many, many people. The EITC was criticized on the floor because it was not refundable, you had to file a tax return to get it and if you didn't have enough taxes you're not going to get all of it just part of it.

He said he believed it was Marilyn's TRC in 2000 that talked about pensions, drawing a distinction between pensions and defined contribution plans, and IRAs. There were comment which kind of said to adopt the federal standards and there comment was tax them all the same. IRAs, 401Ks, defined benefit pension plans; pension plans and profit sharing plans just tax them all the same or don't tax them. He thought the constitution said that everyone who has an IRA were not going to have to pay taxes provided up to a particular level then it may not have had all the resistance with that particular legislation.



He said if you bought a wheelchair you pay GET because it wasn't exempt. Wheelchairs, canes, long term care, equipment that people always had to pay for. The focus really should be on the tax system, fairness and efficiency which was what it said as well as how policy could be changed to serve the whole population of Hawaii not just certain sections of it. So the GET in 2000 looked over all of the exemptions to see which ones could be eliminated which would not have the effect of getting rid of exemptions to increase revenue or decrease revenue because it means now there would be income on something that was sold. So the exemption doesn't work the same way in the GET system as it did in the income tax system.

He said having to listen to these discussions, looking at all the prior reports, being involved with prior TRCs and furthermore look at what the Concon had to say, they established the COR. The COR said this was the amount of money you had to spend legislature because prior to COR, the governor said what he expected and the legislature did that and there wasn't any consistency. Now when they do the budget, it was what the COR said. So if your spreadsheet disagreed with COR in the amount of income to be received the legislature can't follow it set the budget.

He said it was fine to talk about a carbon tax but shouldn't it be done within the context of wanting to meet the 2024 energy system of where we wanted to be. The beverage tax has been challenged in Chicago and was still in the courts, was being challenged in Philadelphia, it went on ahead in Berkley and thought it was thrown out in New York but should our tax policy be saying get rid of these drinks even though it may be regressive which was the kind of tax it was. They were focusing more on needing more revenue but what about the system itself that stood by itself on its own two feet that taxed people below the poverty line, doesn't seem consistent with comments made by the Concon. We would like a system that brought about economic change.

He said having said that, the AG was right about saying that they did add revenue but where was the focus; you guys would need to raise taxes or create a better system that would create that revenue but also eliminate some of the inequities at this particular time. Look at prior TRCs and their focus if it were on the system itself and eliminating those particular things in the system that were inequitable or should be changed.

#### **NEXT MEETING:**

The next meeting was scheduled for Wednesday, November 8, 2017 at 1:00 PM.  
TRC tentatively scheduled meeting for Monday, December 11, 2017 at 1:00 PM

#### **ADJOURNMENT:**

The meeting was adjourned at 2:33 PM.