

DAVID Y. IGE  
GOVERNOR

DOUGLAS S. CHIN  
LT. GOVERNOR



KURT KAWAFUCHI  
CHAIR

MARILYN M. NIWAO  
VICE-CHAIR

**MEMBERS:**

Carl S. Bonham  
Christopher Grandy  
Ed Case  
Jack P. Suyderhoud  
Kristi L. Maynard

## COUNCIL ON REVENUES

STATE OF HAWAII  
P.O. BOX 259  
HONOLULU, HAWAII 96809-0259

June 1, 2018

The Honorable David Y. Ige  
Governor, State of Hawaii  
Executive Chambers  
State Capitol, Fifth Floor  
Honolulu, HI 96813

Dear Governor Ige:

At its meeting on May 24, 2018, the Council on Revenues (the “Council”) raised its fiscal year (FY) 2018 revenue forecast for the General Fund from 5.3% to 7.3%. Primarily as a result of the elevated growth in revenue from individual income taxes, General Fund revenues in the first ten months of FY 2018 came in higher than forecast at 8.3% v. 5.3%. The Council also raised its growth forecast from 4.5% to 5.0% in FY 2019 and left FY 2020 to FY2024 unchanged at 4.0%.

The growth in General Fund revenue resulted from higher marginal personal state income tax rates on high income earners in 2018, continued robust economic activity (particularly tourism), and the stimulus effects of the Tax Cuts and Jobs Act passed in December 2017. The ripple effects from the comprehensive changes incorporated in the new Federal Tax Law remain challenging to predict. These ripple effects include tax planning involving prepayments of state tax 2017 which are limited for Federal tax purposes in 2018 and additional withholdings from bonuses paid to employees in 2018 due to anticipated Federal corporate tax refunds. In addition, the Council discussed the growth in other tax revenues, such as general excise taxes from Amazon internet sales that were not previously reported, taxes collected due to 2017 corporate reorganizations, and other transactions triggering capital gain taxes for the 2017 tax year.

The Council discussed the state of the economy for the rest of FY 2018. The consensus was that the economy is performing well in FY 2018, and it is expected to extend to a significant portion of FY2019. However, the economic conditions in the out-years remained uncertain. Concerns were expressed about the effects on the economy of recent tragedies like the floods on Kaua'i and the ongoing volcanic eruption on the

Big Island. There were also concerns that the economy may reach the end of its current expansionary cycle during the seven-year budget window. The chance of an economic downturn is reflected in the lower growth numbers for FY 2020 to FY 2024.

The new forecasts of State General Fund tax revenues for FY 2018 through FY 2024 are shown in the table below.

Fiscal Year	General Fund Tax Revenues	
	Amount (in Thousands of Dollars)	Growth From Previous Year
2018	\$6,776,226	7.3%
2019	\$7,115,037	5.0%
2020	\$7,399,638	4.0%
2021	\$7,695,624	4.0%
2022	\$8,003,449	4.0%
2023	\$8,323,587	4.0%
2024	\$8,656,530	4.0%

In developing its forecasts, the Council took into account provisions from current legislation including:

- Act 107, SLH 2017 reinstates three tax rates and brackets (9.0%, 10.0%, and 11.0%) for the highest-income taxpayers imposed by Act 60, SLH 2009, for taxable years beginning after December 31, 2017. The estimated gain to the General Fund is estimated to be \$50.7 million in FY 2019, \$53.3 million in FY 2020, \$55.9 million in FY 2021, \$58.7 million in FY 2022, \$61.6 million in FY 2023, and \$64.7 in FY 2024.
- Act 107, SLH 2017 establishes a nonrefundable earned income tax credit (EITC) equal to 20 percent of the federal EITC. The tax credit applies to tax years 2018 through 2022. The estimated loss to the General Fund is estimated to be \$16.7 million in FY 2019, \$20.4 million in FY 2020, \$23.8 million in FY 2021, \$27.1 million in FY 2022, \$30.1 million in FY 2023, and \$0.0 in FY 2024.
- Act 107, SLH 2017 repeals the sunset date (December 31, 2017) for the amendments to the refundable food/excise tax credit by Act 223, SLH 2015. The estimated loss to the General Fund is estimated to be \$6.5 million per year from FY 2019 to FY 2024.
- Act 143, SLH 2017 amends the motion picture, digital media, and film production tax credit by limiting total amount of credit to \$35 million/year and extending the credit to January 1, 2026. Total tax credits claimed per qualified production shall not exceed \$15 million. The estimated revenue loss to the General Fund is \$35 million from FY 2020 to FY 2024.

- Act 54, SLH 2017 exempts certain affordable rental housing projects from the general excise and use tax. The legislation limits total amount of exemptions to \$7 million/year starting July 1, 2017 through June 20, 2022. The expected revenue loss is \$7 million in FY 2019-2022.
- Act 1, SLH 2017 increases the TAT rate from 9.25% to 10.25%, effective January 1, 2018 through December 31, 2030, and allocates the tax revenue generated from the increase to the Mass Transit Special Fund. The Act also increases the annual allocation to the counties from \$93 million to \$103 million, beginning in FY 2018. The expected revenue loss to the General Fund is \$10 million from FY 2018 to FY 2024.

In addition, the Council also took into account provisions from earlier legislation, including the following:

- Acts 117 and 121, SLH 2015 changed allocations of the TAT. According to Act 121, TAT allocations for FY 2016 and later are as follows: Tourism special fund \$82 million; Counties \$93 million (except \$103 million in FY 2016 and FY 2017); Convention Center special fund \$26.5 million; and Turtle Bay conservation easement \$1.5 million. Act 117 allocated \$3 million annually to the Special Land Development fund starting in FY 2017. The changes in allocations are expected to yield \$2 million in additional General Fund tax revenues in FY 2017 and thereafter. Note that Act 107, SLH 2017 directs \$103 million from FY 2018 and beyond.
- Act 120, SLH 2015 provides a tax credit for converting cesspools to a septic system or connecting to a wastewater system. The tax credit expires December 31, 2020 and is estimated to reduce General Fund tax revenues by \$5 million annually from FY 2017 through FY 2021.
- Act 223, SLH 2015 modifies the food/excise tax credit (an increase for certain taxpayers) for tax years 2016 and 2017. The Act is estimated to reduce General Fund tax revenues by \$6.5 million in FY 2017 and in FY 2018.
- Act 89, SLH 2013 amends the motion picture digital media and film production tax credit. The Act increases the credit rate from 15% to 20% for productions on Oahu and from 20% to 25% for productions on the neighbor islands. The Act also increases the cap on the amount of the credit per production from \$8 million to \$15 million and moves the expiration date for the credit from January 1, 2016 to January 1, 2019. The Act is estimated to raise the annual cost of the tax credit by about \$21 million.

The Department of Taxation has prepared a report (attached) detailing line-item forecasts for various components of the General Fund, reconciled to the Council's forecast growth rate for total General Fund tax revenues. The line-item forecasts include components, such as revenues from the General Excise Tax and from the Individual Income Tax that the Council does not forecast separately. Also, the Department of

The Honorable David Y. Ige

June 1, 2018

Page 4

Budget and Finance has prepared the attached report to update its projections for change in non-tax and special tax revenues from its report on March 13, 2018.

Please advise us if we can be of further assistance or if we can answer any questions.

Very truly yours

A handwritten signature in black ink, appearing to read 'Kurt Kawafuchi', with a stylized flourish at the end.

KURT KAWAFUCHI  
Chair, Council on Revenues

Attachments