Report of the

FIRST TAX REVIEW COMMISSION

to the

THIRTEENTH LEGISLATURE

STATE OF HAWAII

December 17, 1984

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December 17, 1984

To the Honorable Members of the Thirteenth Legislature:

The Tax Review Commission is pleased to present this report containing its recommendations regarding the adequacy, fairness, and economic impact of Hawaii's tax structure.

Article VII, Section 3 of the Hawaii Constitution as amended in 1978, provides that "there shall be a tax review commission which shall be appointed by law on or before July 1, 1980, and every five years thereafter." Act 218, State Laws of Hawaii 1979, established a seven-member Hawaii Tax Review Commission to be appointed by the Governor with the advice and consent of the Senate.

The first Commission, sworn in on May 28, 1980, observed that Hawaii's tax system had not been subject to comprehensive study since the mid-1950's, and it agreed to focus on the larger issues of taxation: fairness of the State's taxes, adequacy and responsiveness of the tax structure, degree to which taxes are exported and further exportable to nonresidents, and effects of taxation on business and economic efficiency. A lack of funding to support its research agenda caused the Commission members to resign.

Act 212, State Laws of Hawaii 1983, authorized the appointment of replacement members to the Commission, and the new Commission held its first meeting in August of the year. The present Commission endorsed the focal points of study established by the earlier Commission with emphasis on the general excise and the net income taxes. Other sources of revenue were evaluated within the context of the broader policy issues noted above under the assumption that more narrow issues can be addressed by subsequent commissions.

The Commission would like to take this opportunity to thank the many individuals and organizations providing information and assistance to the Commission in carrying out its tasks. The Hawaii Department of Taxation, under its former director George Freitas and present director Herbert Dias, contributed administrative support, data necessary to carry out analytical studies, and comments on the administrative implications of the Commission's recommendations. The state Department of Budget and Finance made available its resources for the Commission's expenditure estimates and the Department of Social Services and Housing provided data on the relationship between taxes and welfare benefits. Data on the Hawaiian economy and the Hawaii input-output model was supplied by the Department of Planning and Economic Development. A volunteer panel of national and local tax policy experts also provided guidance and input on the Commission's technical research agenda (see Appendix C). Finally, the Commission benefited from the suggestions and critiques of local tax practitioners and members of the general public.

Respectfully submitted,
HAWAII TAX REVIEW COMMISSION

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INTRODUCTION

In developing its findings and recommendations the Tax Review Commission established a comprehensive research agenda and secured input of the general public. The research was carried out by the Commission's staff and consultants. The results of this research are presented in ten consultant's reports and thirteen staff working papers (see Appendixes D and E). The Commission's "Background Report" provides a synthesis of these research efforts. The technical work of the Commission was scrutinized by a volunteer panel of national and local tax policy experts. Public input was solicited at hearings held in each county in both May and November of 1984. In addition, the commissioners and staff met with tax practitioners and interested public groups to obtain their suggestions and advice. While the Commission's agenda was comprehensive, time and resource constraints prevented the Commission from addressing all structural inconsistencies in the tax system.

The Commission's recommendations reflect an attempt to strike a balance among often conflicting goals in tax policy. These goals include the fairness of taxes (equal treatment of equal taxpayers), simplicity of the tax system, efficiency of the tax structure in generating revenue with a minimum of economic dislocation, and the ability of revenues to meet future expenditure needs. Not all of these criteria can be satisfied simultaneously. For example, a tax that is simple, as is the present gross receipts tax, may create some inefficiencies since inter-business transactions are subject to taxation. As a second example, a progressive income tax that provides tax adjustments to reflect ability to pay may not be simple to comply with or administer. Since not all goals of tax policy can be achieved at the same time, the Commission was forced to accept compromises of one goal versus another.

The findings and recommendations of the Commission also reflect the Commission's assumption that the current level of State spending in Hawaii is consistent with that desired by Hawaii's people. Thus, recommendations that result in reduced taxes to the State are accompanied by others that offset these losses. (See Appendix A for a tally of revenue effects of the recommendations.) The recommendations are thus a package that is "revenue neutral," and the failure to adopt recommendations that increase revenues or shifting of those revenues out of the state general fund will require a pull-back from the tax reductions proposed by the Commission.

The report is divided in two sections. The first presents the general findings and conclusions of the Commission as they relate to the overall tax structure of the state. These conclusions form a philosophical framework for the specific recommendations presented in the second part of the report. Each recommendation is accompanied by a statement of rationale and justification and an estimate of the revenue implications of the recommendation.

GENERAL FINDINGS AND CONCLUSIONS

Adequacy of Revenues

The Tax Review Commission concludes that the present tax structure will provide adequate revenues to meet state spending needs over the next five years at current levels of service. This conclusion is based on the assumption that there will be neither a severe recession nor major cutbacks in Federal aid during the period and the understanding that the present state tax system is responsive to economic growth. This responsiveness (or "elasticity") should permit very modest expansion of state services consistent with the growth of population and real incomes. In any given year, however, the probability is that there will be a revenue overage or shortage.

To offset possible revenue losses from cyclical declines in the economy or fluctuations in the flow of Federal aid the Commission considers it desirable that a formal general fund stabilization fund ("rainy day" fund) be established. Since Hawaii's tax structure is "elastic," revenue growth will exceed long-term expenditure needs during periods of prosperity making it possible to expand programs and/or reduce tax rates. Conversely, revenues can be expected to fall below requirements during down-turns in the economy. Thus while the present elasticity is consistent with long-term revenue needs, there will be year-to-year imbalances between revenues and base-line spending levels. Instead of having to adjust spending up or down to match available revenues for a given year, the State should divert revenues to a rainy day fund when excess revenues occur and draw on this fund during periods of revenue shortfalls (see Recommendation #3).

Equity and Efficiency Adjustments to the Tax System

The Commission finds that the legislative intent to have a progressive ability-to-pay tax structure has been substantially undermined by inflation and by an increasingly complex tax code that provides opportunities to avoid taxation. To counteract these effects there will have to be changes in the structure of some of the State's taxes.

The Legislature has historically supported the concepts of a progressive tax system wherein individual tax liabilities are reflective of ability to pay taxes. For this reason the state individual income tax was formulated to exempt very low incomes from taxation and to tax higher incomes at progressively increasing rates. Likewise, the State has provided income tax credits for excise taxes paid and structured these credits to provide the greatest relief to the lowest income taxpayers. However, legislative intent and actual outcomes do not always coincide.

With respect to the individual income tax, inflation has eroded the value of exemptions and deductions. In addition, because income tax brackets have remained unchanged since 1966, taxpayers with inflated incomes have been pushed into higher tax brackets. This effect has been most adverse for those with the lowest incomes. To a lesser degree, the value of income tax credits available to low income households for excise taxes paid has not kept pace with inflation in spite of periodic adjustments by the Legislature.

The Commission finds that simplifying the tax system is necessary to achieve a more efficient taxing structure. This includes a more uniform treatment of taxpayers for both excise and income tax purposes. Concurrent with inflation, the income and excise tax codes have become proliferated with special interest exclusions, exemptions, deductions, and credits. The effect of these is to narrow the tax base and reduce collections compared to what they would have been otherwise. Thus tax rates are higher than might otherwise be the case. In addition, these special provisions create confusion and compliance problems among taxpayers. They create incentives to minimize tax liabilities by undertaking economic activity that is otherwise not productive. Simplifying the tax codes and treating taxpayers more uniformly will reduce the incentives to avoid taxes.

County Revenue Structure

The Commission finds that conditions such as increased population (including tourists), urbanization, and general societal attitudes of the time have resulted in considerable financial pressure on county administration. In addition, there is concern among the counties that the degree of fiscal centralization in Hawaii does not permit sufficient flexibility to meet the perceived needs of each individual county.

However, it was not demonstrated to the Commission's satisfaction that the revenue raising powers held by county authorities are not adequate to finance the expenditure needs of the respective counties at this time.

Compared with other local governments in the United States, Hawaii's counties have only limited functional responsibilities. Inasmuch as the State directly administers general education, social welfare, health care and hospitals, the financing requirement on the counties' major tax source, the property tax, is relatively low. Thus, even with very high property values, Hawaii's property tax is low compared to virtually all other states. Even with stable, or even declining, state aid to the counties, the property tax should remain an adequate source of revenue. Table 1 shows that rising property values since 1975 have made it possible for the counties to steadily lower the tax rate per $1000 net assessed value. Had the rate remained unchanged between 1983 and 1984, the counties would have had an additional $16.5 million in revenue. Additional revenues can also be obtained through expanded and more realistic county user charges.

TABLE 1: COUNTY PROPERTY TAX RATES*, 1975-84

FISCAL YEAR	Honolulu	Maui	Hawaii	Kauai	Average
1984	7.60	4.50	9.19	8.05	7.34
1983	8.06	4.50	10.01	8.70	7.76
1982	9.14	4.50	10.74	8.70	8.53
1981	9.14	3.88	10.74	8.70	8.57
1980	9.14	5.45	10.74	8.70	8.55
1979	9.14	7.18	10.74	8.70	8.87
1978	9.22	7.50	10.74	8.70	9.15
1977	9.22	7.50	10.74	8.70	9.19
1976	10.76	9.80	12.53	10.15	10.72
1975	12.40	10.50	12.53	10.15	10.72

*All rates computed at dollars per $1000 of 100% of net assessed value.

Source: Tax Foundation of Hawaii, **Government in Hawaii, 1984**, p. 30.

In public testimony, it was not established to the Commission's satisfaction that the unmet needs of the counties are any more pressing than those of the State. To shift the tax burden from real property to the excise and income tax would further throw out of balance the state-local revenue structure which already intensively taxes consumption and income. However, the Commission does suggest that as part of a reform of the Public Service Company Tax counties tax the property of public service companies (see Recommendation #24).

The Commission did receive input indicating dissatisfaction with the high degree of fiscal and functional centralization in Hawaii state-local government. This degree of centralization may have been appropriate for conditions 15 or 20 years ago, but since then the counties have evolved into more populous jurisdictions with greater political sophistication. The degree of dominance held by the State is thus called into question. However, the Commission concludes that the appropriate forum to address these concerns is the State Legislature and the Constitutional Convention.

The Business Tax Burden

The Commission finds that Hawaii's business tax structure is, on average, not disproportionately burdensome when compared with other States and should not be altered significantly in uncertain expectation of stimulating new business investment. However, there are several areas in the tax system that require adjustment to remove inequities and inefficiencies, and possibly to help improve Hawaii's business climate or the perception thereof.

Among the many factors that businesses consider in making investment decisions are costs of land, labor, transportation, energy and taxes. In the light of adverse national publicity and some local dissatisfaction with Hawaii's business environment, the impact of the State's taxes on business is of urgent concern to the Commission. In response, the Commission has made an extensive study of the issues and has obtained a broad spectrum of input from the public.

Hawaii's tax structure is unique in its reliance on the broad-based general excise and use tax and its low property taxes. To compare Hawaii with other states (notably California, Massachusetts and Texas, several development "success stories") requires that all state and local taxes be compared and that the interaction of the Federal and state taxes be taken into account. When this is done it is found that Federal taxes are far more significant than state taxes in affecting returns on business investment. Nevertheless, differences exist among states, and when compared, Hawaii's business taxes are moderate; they are lower than those of California and Massachusetts but higher than in Texas. In no case can the differences be considered large. Thus, while taxes are one of many factors that may contribute to the perception by some that Hawaii is a difficult place to do business, the State's aggregate tax structure should not be considered as contributing significantly to any adverse business climate which may exist in the state.

Nevertheless, there are several specific aspects of the tax system that, when adjusted, may improve people's perceptions. These relate to the excise tax levied on inter-affiliate transactions and exports from Hawaii. The Commission has made specific recommendations regarding these issues (see Recommendations #11 and #12).

The Commission did not address non-tax sources of business frustration. These include unemployment and workers compensation insurance which have been evaluated in separate State studies. In addition, regulatory and land use policies also contribute to perceptions of an adverse business climate, but these issues were deemed not to be within the scope of the Commission's mandate.

New Revenue Sources

To replace lost revenues associated with some of the recommended specific equity and efficiency adjustments, the Commission concludes that the following new sources should be adopted: a transient accommodations tax, or variant thereof, and a state lottery (see Recommendations #15, 16, and 29).

In view of its findings that the present tax structure will generate revenues sufficient to meet the State spending needs for the next five years, the Commission sought a package of proposals that is "revenue neutral," i.e., that will produce neither higher nor lower levels of revenues than those projected under the present system.

Several Commission recommendations intent on improving the equity and efficiency of the tax system will result in considerable losses of revenue. These losses must be made up by rate increases, further broadening of the present tax base, and/or adding new sources of revenue. The recommendation to utilize the revenue sources above is based on the Commission's need to make up losses of revenue from priority given to equity and efficiency adjustments of the present system.

RECOMMENDATIONS RELATED TO THE OVERALL TAX STRUCTURE

In this section of the report the Commission presents its recommendations related to the overall tax structure of the State. Each recommendation is accompanied by a brief statement of rationale and justification as well as an estimate of the revenue effects, if any. Details of the justification for the Commission's actions can be found in the Commission's background report, consulting reports, and staff working papers.

Overall Equity Considerations

Recommendation #1:

The Commission recommends continued adherence to the policies that State taxes used to support the general fund should be levied in a manner that reflects, in aggregate, the ability of residents to pay these taxes. The incidence pattern of these taxes should reflect no taxation of income up to a threshold level with progressive marginal rates thereafter leveling off to a flat rate.

Rationale and Justification: The Legislature has long held that Hawaii's general fund taxes should reflect ability to pay and should not be levied on subsistence incomes. Thus, income exclusions, standard deductions, and progressive tax credits have been provided. In addition, tax rates have been progressively formulated with a leveling-off to a flat rate. This rate structure and exemption of subsistence income creates what is known as a "digressive" incidence pattern. The intent of this digressive incidence pattern is to exclude low incomes from taxation, i.e., households should not be required to pay tax on subsistence income. In the ideal, it provides for fair progressive taxation of higher incomes at marginal rates which level off and never become sufficiently high to create incentives for undesirable tax avoidance or evasion.

However, real growth coupled with significant inflation since the late 1960's has altered the actual distribution pattern of Hawaii's taxes. In aggregate, the State's taxes are regressive. Even the income tax, with its statutory progressive structure, effectively has a proportional distribution pattern. This violates the basic principles established by the State. Specific recommendations by the Commission are aimed at returning some of the intended equity features to the tax structure (see Recommendations #8, 17, and 21).

Revenue Implications: While this recommendation results in no change in aggregate tax revenues, some change in revenue mix is suggested.

Recommendation #2:

To broaden the tax bases and to keep tax rates low, the Commission recommends that many narrow tax preferences in the existing state tax code should be eliminated. Since it is difficult to consider the large number of such tax provisions involved in any one legislative session, all provisions should be "sunsetted" to expire by 1987 unless explicitly retained by the Legislature. The specific preferences recommended for review are discussed under their respective tax in this report (see Recommendations #14 and #20).

Rationale and Justification: The public acceptance and understanding of the state tax system is called into serious question when the code is proliferated with selective special interest tax preferences. Frequently these preferences do not stand close examination when viewed individually, and there is serious question if the complex of exemptions and preferences makes much sense from an equity or efficiency perspective when viewed together.

There is growing evidence that narrow tax preferences for specific industries or individuals have very little impact on economic behavior. Thus, whatever positive goals may be intended by these preferences the effect is to reduce revenues while doing little to achieve these goals.

Indeed, selective tax preferences can have detrimental effects. They can be challenged on constitutional grounds as being discriminatory, thus subjecting the entire tax structure to the uncertainties of legal battles. Further, some tax preferences serve as precedents to other or larger preferences thus adding to tax revenue erosion and complexity.

To avoid these problems, the narrow preferences should be eliminated.

Revenue Implications: Increased revenues are anticipated reflecting the Commission's specific recommendations.

Overall Revenue Adequacy Considerations

Recommendation #3:

The State should establish a formal general fund stabilization ("rainy-day") fund to stabilize the year-to-year expenditure changes. Contributions to this fund should be made during times of budget surpluses and draw-downs should occur in times of fiscal stress. The fund balance should be allowed to grow to a level which can provide adequate reserves in the event of revenue shortfalls.

Rationale and Justification: The year-to-year growth of expenditures and tax revenues do not necessarily coincide. In some periods the growth of receipts exceeds that of expenditures while in others the reverse occurs. Given the ongoing program needs of the state, it is better to have a level trend in spending rather than to accelerate spending in good fiscal times and have spending cutbacks when fiscal stress occurs. Too rapid expansion raises costs of government while severe contractions create dislocations in public services that could readily be avoided.

The stabilization of expenditures can be accomplished through the use of a rainy day fund which can be built up during the periods when receipts exceed expenditures and drawn down when the reverse is the case. This sort of system already exists implicitly. State budget data indicate that during times of stress unreserved balances are drawn down (but expenditure growth is also slowed). The Constitution requires that excess revenues be returned to taxpayers, thereby establishing an implicit 5% rainy day fund. Formalizing this procedure could further reduce unnecessary fluctuations in expenditures.

The Commission estimates that during periods of above-average growth the annual contributions to the stabilization fund should range from 5 to 6% of current general fund expenditures after other needs are met. Balances should be allowed to accumulate to about 12% of expenditures. The failure of voters to repeal the Constitutional requirement for a mandated tax rebate when general fund surpluses exceed 5% of general fund receipts need not prevent establishing a rainy day fund. A transfer of cash balances to a special fund will reduce the general fund surplus in which case only the Constitutional spending limit must be considered. Since expenditures have been consistently below the spending ceiling, funding the rainy day fund should be possible without exceeding the ceiling.

In 12 of 20 states that use a formal rainy day fund, expenditures from the fund are automatic when revenue shortfalls occur. In the remaining states, expenditures require explicit appropriations by the Legislature.

Revenue Implications: Since the built-in responsiveness of the tax structure is adequate to meet expenditure needs with some cushion, financing of a "rainy-day" fund can over time be accomplished without having to increase taxes.

Recommendation #4:

The following state special funds should be self-supporting and should not be subsidized by infusion from the general fund on a permanent basis: highways, airports, harbors, parking, unemployment compensation, and disability compensation.

The financing requirements should reflect realistic costing of services provided by the funds, including overhead charges to the general fund, sinking funds adequate to replace depreciating capital, and balances to offset revenue declines during periods of fiscal stress.

In addition to the special funds mentioned above, the state should evaluate its other user charges and fees to determine if they are consistent with the value of services exchanged and the true cost of providing those services. This includes regulatory activities, recreation, licensing, inspection services, and water supply.

Rationale and Justification: Special fund financing is justified in those areas of government activity where the users or beneficiaries can be readily identified and charged for the use of the service or activity. In view of this, it is equitable and efficient that the users of such services do pay their own way. This is particularly true in an inflationary period when the costs based on accounting data do not reflect the full economic or replacement costs of the service or facility. Levying of user charges or benefit taxes related to the current real economic replacement costs will generate a more adequate flow of funds to the activity.

Revenue Implications: Adequate charges will reduce the need to make transfers from the General Fund to special funds. In 1984 this amounted to $15 million. More realistic user charges will add to non-tax revenues and will reduce the pressure on tax revenues.

Tax Exporting

Recommendation #5:

Hawaii's taxes should be structured in such a way as to maximize the "exporting" of taxes consistent with constitutional criteria and other goals of the state.

Rationale and Justification: Most states attempt to "export" their taxes to nonresident taxpayers. This is done in three ways: exported commodities are taxed at high rates (e.g., oil and coal in energy-rich states), services provided to nonresidents are taxed (e.g., hotel rooms, car rentals, gambling), and state taxes are "exported" to the Federal treasury through taxes on Federal construction. Under the present tax structure about 30% of Hawaii's taxes are exported. Two-thirds of this amount (20%) is exported to visitors through their purchases of goods and services. In spite of the significant tax exporting that occurs in Hawaii, other states, such as Alaska, Nevada, Texas, and Wyoming, export their taxes to a comparable or even greater extent.

Through judicious structuring of the tax system, Hawaii can increase its tax exporting.

Revenue Implications: Depending on how this recommendation is implemented some revenue increase is possible.

Business Impact of Hawaii's Taxes

Recommendation #6:

The Commission recommends that there should be no large-scale reduction or increase in direct business taxes.

Rationale and Justification: Hawaii has a high per-capita tax burden when compared to other states, but this does not translate into a burdensome tax pattern on businesses. The higher per capita taxes are the result of high costs of living in Hawaii, the degree of urbanization in the state and the relatively low reliance on user charges. Further, it may be overstated by the degree to which taxes are exported out-of-state.

The Commission has found that the total state and local tax burden on businesses for Hawaii is not out of line with other states. Hawaii compares favorably to numerous states including California, Massachusetts, and Oregon. Thus, while Hawaii levies a 4% excise tax on capital purchases, its corporate income tax is comparatively low and property taxes are extremely low.

Given these results, neither a broad-based business tax reduction nor tax increase is called for.

Revenue Implications: No changes in revenues are specifically related to this recommendation.

Recommendation #7:

The Commission recommends that if the Legislature perceives the need to provide specific reliefs or incentives to business that this be done via case-by-case expenditure assistance.

Rationale and Justification: The Commission is guided by the principle that business taxes should be uniform and structured in such a manner as to minimize differences in effective tax rates across similar firms and across industries. This applies to both the overall design of major business taxes (for example, the corporate income tax) as well as the question of special tax preferences. Further, the Commission has found that special tax preferences have very little impact on the economic behavior of businesses. Thus, tax preferences cannot be generally justified on the basis that they will stimulate new investment.

The recent experience with the state liquor tax indicates the dangers of providing narrow, highly selective tax preferences or tax expenditures to specific firms or industries. The portion of the business community that does not benefit from the tax breaks will have incentives to legally challenge the state, as occurred in the liquor tax case.

Even in the absence of court challenges and accompanying financial disruptions, serious equity and efficiency questions are raised by the use of selective tax preferences. If the breaks are provided to only "new" firms or industries, existing firms can claim unfair advantage. However, if the tax break is provided to an industry inclusive of both the old and new firms, the revenue loss is likely to be significant. The less-favored industries or firms are likely to pay higher taxes than would be the case if the tax revenues were raised in a more even-handed, broad-based manner. Moreover, the granting of significant tax preference to any large group of firms would establish a precedent that could be used as a wedge to elicit less justifiable tax distortions.

The prospect of receiving preferential tax treatment gives rise to proposals that distract legislative attention from more important features of tax policy refining.

As an alternative to narrowly targeted tax preferences the Legislature can opt to provide direct expenditure assistance to worthy businesses. This can be done through direct loans (as is done in 21 states including Hawaii), loan guarantees (used in 11 states), state-funded interest subsidies, state-funded or -chartered equity/venture capital corporations (established in 5 states), or privately sponsored development credit corporations.

Revenue Implications: To the extent that this recommendation forms the basis for other recommendations to reduce tax preferences, revenues will be increased.

RECOMMENDATIONS RELATED TO THE GENERAL EXCISE TAX

Equity Considerations

Recommendation #8:

Income tax credits are the appropriate vehicles to offset the regressive effects of excise taxes on food and drugs. While past inflation and equity considerations require some adjustment of the value of these credits, the Commission recommends that the credit approach is advantageous compared to across-the-board exemption of food and drugs from excise taxes.

Rationale and Justification: As a general principle of good tax policy, any tax should be applied to as wide and uneroded a base as possible. Given the tax revenue to be raised, this permits a lower marginal tax rate to be used, thus facilitating tax efficiency. Broader tax bases are also consistent with efficiency in that fewer administrative costs have to be incurred in making and monitoring distinctions among the many firms and products subject to the tax. Moreover, any exemption, however meritorious, provides a precedent for other exemptions, the cumulative effect of which narrows the tax base further and gives rise to differential treatment among taxpayers that may lead to legal action challenging the preferences granted.

Any adverse effect of such a broad-based tax policy can be mitigated by a system of tax credits applied against the state individual income tax. In general the tax credit approach is more equitable and efficient than exemptions as a means of mitigating adverse tax effects on low income households. Based on data compiled by the U.S. Bureau of Labor Statistics, exempting food from the excise tax in 1984 would have reduced a low-budget family's excise tax paid by $269, and intermediate-budget family's tax $337, and a high-budget family's tax by $430. A tax credit, on the other hand, can be targeted specifically at those with the greatest need: low-income wage earners and low-income senior citizens.

Income tax credits are extensively used by low-income people. In 1982, 208,644 tax returns (50% of the total) had taken an excise tax credit. Among these were 55,300 returns with adjusted gross income below $1,000.

There is evidence that tax credits are reaching proverty level taxpayers. In 1979, 204,000 returns had claimed an excise tax credit while there were 17,771 families and 24,775 individuals below the poverty line. In 1979 the poverty threshold for income was $4,080 for a single person and $8,300 for a family of four.

Revenue Implications: No change in revenues is anticipated due to this general recommendation.

Recommendation #9:

The amount of the excise tax credits and the income brackets that determine the levels of the credit should be adjusted for inflation. The accompanying table makes the suggested changes.

It is further recommended that adjusted gross income be modified for determining the amount of the credit. This modification should add back to income the following exclusions: 60% of capital gains, excluded dividends and interest, payments to IRA and Keogh plans, unemployment and worker's compensation payments, public assistance benefits, and payments to individual housing accounts.

Proposed Excise Tax Credit Schedule

Modified Adjusted Gross Income	Tax Credit Per Exemption
under 9,700	$58
9,700 - 11,600	54
11,600 - 13,500	50
13,500 - 15,500	46
15,500 - 17,400	43
17,400 - 19,300	39
19,300 - 21,300	33
21,300 - 23,200	27
23,200 - 25,100	21
25,100 - 27,000	15
27,000 - 29,000	12
29,000 and over	0

Rationale and Justification: The excise tax credit is designed to counteract the regressive nature of the general excise tax. Inflation is a two-edged sword which reduces the effectiveness of the credit in achieving this goal. First, inflation reduces the real value of the credit to individuals. Second, it simultaneously pushes individuals into higher income brackets where the amount of the credit is reduced. Inflation adjustments of both the levels of the credits and the qualifying income brackets counteracts these effects keeping constant the credit's ability to offset the regressive nature of the excise tax, as designed.

To qualify for the credit, all sources of income regardless of taxability should be included. That is to say, the need for the credit is the same for a low-income wage earner as a low-income person who receives tax free interest income.

Revenue Implications: Adjusting both the levels and the income brackets of the credit for inflation would increase the value of credits taken for 1984. However, this is in part offset by expanding the definition of income. The net effect of this recommendation in the context of other proposals is to reduce taxes by $7 million.

Recommendation #10:

The Commission recommends that no substantial changes be made in the present general excise tax with the exception of minor adjustments which will remove some of the more inequitable aspects of the tax (see Recommendations #11, 12, and 13).

Rationale and Justification: The present general excise tax is actually two taxes in one. While it is technically a privilege of business tax on all those doing business in Hawaii, the differential rate structure creates the image of a business privilege tax plus a broad-based sales tax.

Beyond the confusion it creates, the present general excise tax is perceived to have certain detrimental effects. There are cases of tax pyramiding due to the fact that many intermediate business transactions are taxed at 4%. In addition, the general excise tax is levied on gross receipts from inter-affiliate transactions thus creating some incentives for integration of business. Finally, the existence of a preferential rate for certain gross receipts creates inequities among essentially equal taxpayers. For example, receipts from some intermediate business services are taxed at 1/2% while others are taxed at 4%. Still other gross receipts, because of exemption, are not taxed at all.

Leaving the general excise tax structure essentially as is does not eliminate pyramiding of the tax. The Commission has found that the degree of pyramiding is not as large as some have suspected. That is to say, the 4% retail rate is actually about a 5.0% rate, on average, when the pre-retail general excise tax imbedded in the price is considered. Even though the degree of pyramiding is small, the present structure of the general excise tax causes pyramiding to have different effects for different types of transactions, e.g., services are more highly taxed than goods.

To eliminate pyramiding of the general excise tax while still retaining the productiveness of the tax necessarily complicates the tax structure. There are several ways in which this can be done: a retail sales tax, a non-pyramiding gross receipts tax, and a net excise tax.

Retail Sales Tax. Most states levy a retail sales tax. The base of this tax usually includes sales of only tangible personal property (and not services) and frequently excludes food consumed at home and drugs. This base is much smaller than that of the present Hawaii general excise tax, and the Commission estimates that such a base would require nearly a 20% tax rate to equal the revenue generated by the present general excise tax.

Non-Pyramiding Gross Receipts Tax. A non-pyramiding gross receipts tax would exempt inter-business transactions from the tax. However, this is easier said than done. In New Mexico, which also has a broad-based gross receipts tax, sales of tangible personal property that becomes a **physical ingredient** of another product are not taxed. Services sold to businesses are taxed. The so-called "physical ingredient" rule provides a narrow exemption and may not significantly alter the degree of pyramiding in Hawaii because much of the pyramiding arises out of taxation of service transactions and goods that do not satisfy this rule.

Ohio, by contrast, employs a "direct use rule" whereby any product that is used or consumed in the production of another product or used to produce a product used in the production of another product (use on use) is exempt from their sales tax. A system like this was proposed by A. D. Little in their 1968 report on the Hawaii general excise tax. Since Ohio does not tax services, the issue of intermediate services does not arise. Defining direct use is not straightforward especially for new production processes. After years of experience and litigation, the system in Ohio is well understood except for new industries and production processes. Ohio has 43 volumes of court cases since 1935 of which 60% relate to the direct use rule applied to manufacturing. Thus, while a direct use rule appears attractive to taxpayers because it requires fewer accounting records, it will create administrative problems for the Tax Department.

Administering either the direct use rule or the physical ingredient rule is not easy. It requires that a certificate of exemption be attached to or be part of each invoice of an exempt transaction. This places a compliance burden on the taxpayer as well as an administrative cost on the Tax Department.

Net Excise Tax. In its preliminary recommendations report, the Commission proposed to eliminate pyramiding by taxing the net receipts of a business. There are two ways in which this can be done: a tax on net receipts (the net approach) or a tax on gross receipts plus a credit for taxes paid on intermediate services (the credit approach).

Net Approach: This would levy a tax on the difference between a firm's gross receipts and the costs of goods sold. Effectively this taxes value added. When combined with the 1/2% gross receipts tax proposed by the Commission, this would increase the tax on all transactions now only subject to the 1/2% general excise tax (manufacturers, producers, wholesalers, intermediate services) but reduce it on most transactions now taxed at 4% of gross receipts. This approach requires that the taxpayer keep track of legitimate deductions from gross receipts. This is done presently in Hawaii for certain types of inter-business transactions: cash discounts, sales returns, bad debts, trade-ins, reimbursements for cost advances, payments by contractors to licensed sub-contractors if the sub-contractor is subject to the tax. If this net approach were to be used, it could be expected that confusion would arise about what is deductible and that litigation and refining legislation will be needed to settle some disagreements. However, administration of the net approach might be made less difficult by the fact that aggregate accounting data is required to compute net receipts; data that already must be calculated for net income tax purposes.

Credit Approach: The credit approach would levy a 4% tax on the gross receipts of a firm but provide a credit for taxes paid on intermediate business purchases. Defining these purchases raises the same issues as defining deductible transactions. Mississippi uses this approach for its wholesale tax. Prior to 1984, the state levied a 5/8% wholesale tax and retailers took a credit for taxes paid to wholesalers. Effective in 1984, the wholesale tax was repealed. However, some wholesale transactions are still taxed and credits are still provided. The credit system appears to be working well and auditors can use wholesalers' records to confirm the credits claimed by retailers. While the credit approach is clearly workable, it will require firms to keep records that they may not currently keep, i.e., the sum of all excise taxes paid on intermediate purchases.

In Sum. Removing pyramiding would complicate the present tax system for both taxpayer and Tax Department. A non-pyramiding gross receipts tax is probably easier for businesses than for the Tax Department. The credit approach is probably easiest for the Tax Department but would require firms to keep additional records.

While the present general excise tax has problems, any attempt to resolve them along the lines suggested above may create new and more significant problems. The Commission found considerable opposition to the complexities created by its net excise tax proposal especially from small businesses. The present general excise tax is familiar to all, easy to comply with and its economic effects have been integrated into prices, land costs, rents, etc. Thus no large-scale change is recommended.

Revenue Implications: No specific revenue effects are implied by this recommendation.

Recommendation #11:

To remove the inequitable taxation of certain inter-affiliate business transactions, the Commission recommends that receipts from the sale of goods or services by a parent company doing business in Hawaii to its wholly-owned subsidiaries not be taxable if the parent to whom the receipts accrue is not in the business of providing those goods and services to anyone but its subsidiary firms.

Rationale and Justification: One of the more frequently cited equity problems of the general excise tax is its treatment of payments received by one firm from affiliated firms for what are essentially in-house transactions, e.g., accounting, payroll, computing services, legal services. The Commission is convinced that taxing such transactions discriminates against those firms that choose to organize their internal operations into separate companies versus those that are entirely integrated. If the firm in question sells the goods or services to other persons as well as its affiliated firms, then the sale to the affiliate should be treated as any other sale and be taxable.

Revenue Implications: Some reduction in revenue is anticipated though the amount is likely to be small since firms are presently minimizing their general excise tax liability by organizing in a manner to avoid the tax on inter-affiliate transactions.

Recommendation #12:

The Commission recommends that the price paid by the purchaser for a good or service should be the measure of gross receipts. In the event that such a price is not directly observable because the good or service is sold through an agent, the actual receipts should be "grossed up" by a reasonably assumed or demonstrable sales commission. This commission should not automatically be assumed equal to the difference between actual receipts and receipts based on the list or "rack" price.

Rationale and Justification: The general excise tax defines taxable income as the gross receipts of a business without any deductions, including selling commissions. Thus a firm that has a sale staff cannot deduct from gross receipts the commissions paid to these sales personnel. Some businesses, including many in the visitor industry, sell their products through outside sales agents. The sales agents resell the products at prices frequently unknown to the original provider. If these products are sold by the agent as part of a package, the resale price of any component of that package is frequently indeterminable. The difference between the sales agent's receipts and the price paid to the provider is the agent's implicit sales commission and is taxable at 4% under the general excise tax.

To treat businesses equally, the firm that sells its product via outside sales agents rather than having its own sales staff is subject to having its receipts "grossed up" to reflect the implicit commissions paid to the outside sales agents. The suggested retail price stated by the firm is often used by the Department of Taxation to calculate the appropriate gross-up amount.

While use of the suggested retail price is generally a reasonable guide to constructing gross receipts, it can, in some cases, be unrealistic. For example, a hotel that posts a $65 "rack rate" on standard rooms may actually be selling these rooms at an average price of $45. If the hotel received $30 from a tour packager, the grossed-up receipts of the hotel should reflect the $45 price actually paid on average rather than the $65 rack rate.

The Commission recognizes that there can be reasonable differences in interpretation of appropriate gross-up amounts between taxpayers and the Department of Taxation. The burden of proof should be on the taxpayer to show that the suggested retail price, or rack rate, is not the appropriate measure of gross receipts.

This recommendation does not suggest that the practice of constructing prices for intra-firm transactions be changed. It is recognized that there are situations where list prices are the appropriate measure of the gross receipts that should be attributable to a specific transaction. However, when goods or services are sold for prices below their list price, the actual price should serve as the indicator of gross receipts.

Revenue Implications: A small decrease in general excise tax revenues is anticipated. However, the thrust of this recommendation is to prevent additional taxation of gross income not realized.

Recommendation #13:

The receipts from goods shipped outside the state should be exempt from the 4% general excise tax. Includes in the definition of goods are services with tangible by-products such as computer software and mailing lists.

Rationale and Justification: If tangible goods change title outside the state (i.e., they are shipped CIF destination), they are subject to at most a 1/2% general excise tax. On the other hand, goods shipped FOB Honolulu so that title changes in the state are taxed at 4%. This puts those who choose to export in the latter manner at a disadvantage. Reducing the tax for all exported goods provides an incentive, albeit small, for export activities. The Commission does not intend that purchases made by individuals and subsequently transported out of state be exempt from the 4% general excise tax.

Under the present general excise tax, the gross receipts from exported services are taxed at 4% since the service is performed in Hawaii regardless of who pays for the service. However, services rendered to out-of-state clients are "exported" as much as tangible goods. Removing this inequity for services with tangible by-products is consistent with state goals to enhance exports. Restricting the preference to services with tangible by-products establishes safeguards that these services are not "sent back" and consumed in Hawaii after making a trip out-of-state to avoid the excise tax.

Revenue Implications: This is a tax reduction on exported goods and services and thus revenues will decline. The estimate for 1984 is $14 million.

Recommendation #14:

To reduce the complexity of the general excise tax, certain narrow tax preferences should be reviewed for possible sunsetting by no later than 1987. These include, but are not limited to, the following exempt organizations:

- **—fraternal, charitable, religious, scientific organizations**
- **—Hansen's disease patients**
- **—state-supported radio promoting tourism**
- **—local development companies approved by the Small Business Administration**
- **—prepaid legal services**
- **—nonprofit cemeteries**
- **—nonprofit shippers association**
- **—nonprofit hospitals**

Further, exempt transactions including, but not limited to the following, should also be granted renewed specific legislative exemption or be required to sunset by 1987:

- **—first $2000 of gross receipts of blind, deaf, disabled**
- **—foster home receipts**
- **—brooms manufactured by the blind**
- **—certain petroleum products to be further refined**
- **—bagasse by-products**
- **—scientific contracts with the U.S. government**
- **—low-income housing**
- **—air pollution devices**
- **—repairs of Federally owned ships or ships in international or interstate business**
- **—gasohol**

In addition, the following classes of activities should be reviewed for the low rates at which they are currently taxed:

- **—insurance commissions (.15% versus 4% on other commissions) (see also Recommendation #27)**
- **—alternate energy receipts (1/2% versus 4%)**
- **—receipts by blind, deaf, and disabled person (1/2% versus 4%)**

Rationale and Justification: As noted in Recommendation #2, special tax preferences create complexities which undermine public understanding of and confidence in the tax system. Since the economic benefits of these preferences are often not significant enough to alter behavior, they cannot be justified on the grounds that they will stimulate new or expanding businesses or retain existing ones. If the Legislature is guided by cases of compassion or severe economic distress, the present exemptions should be explicitly reaffirmed through the legislative process.

In considering the extension of special preferences, the Legislature should weigh the relative merits of using tax preferences versus other, more direct approaches. Using the tax system as a vehicle for promoting economic or social change may provide preferences for those who are not necessarily the target of such policies. As noted previously, preferences beget attempts to create more preferences and/or litigation challenging the equity of the tax breaks. The state may be better served by a less complex tax system and more direct assistance to businesses or organizations that merit special treatment (see also Recommendation #20).

Revenue Implications: Only the revenue impact of insurance commissions can be estimated. In 1984 these commissions taxed at 4% would have yielded $8.6 million instead of $323,000 at the present .15%. However, since the Commission only recommends legislative review of the noted excise tax preferences, no revenue gain is presumed.

Excise Tax Revenue Adequacy

Recommendation #15:

Consistent with the Commission's intent to increase the degree of tax exporting, a differential tax on short-term (less than 30 days) transient accommodations is recommended without earmarking the resulting revenues.

Rationale and Justification: A Commission survey of a large number of localities indicates that transient accommodations are virtually always taxed and at rates in excess of 6%, and that tourist as well as business destinations levy hotel room taxes (see Table 2). Hawaii, by contrast, levies only the 4% excise tax on room rentals.

TABLE 2: TOTAL TAXES APPLIED TO HOTEL ROOM BILLS IN SURVEYED LOCALITIES

Percent Total Tax on Hotel Room Bills*	Number of Cities
0.00 - 2.00	5
2.01 - 4.00	6
4.01 - 6.00	6
6.01 - 8.00	12
8.01 - 10.00	12**
10.01 - 12.00	2
over 12.00	1
Total localities surveyed	44

* Includes applicable sales and separate room taxes.

**Washington, D.C., included in this bracket, also adds a flat payment of $1/day room tax.

Increasing the tax on short-term rentals will generate significant revenues to the state. Two-thirds of these revenues will be exported to out-of-state taxpayers. Calculations made by the Commission indicate that for each additional one percent tax on gross receipts of hotel and condominium rentals, the number of visitors coming to Hawaii will decrease by .35% (or 15,750 visitors, assuming 4.5 million total visitors per year). Since visitor arrivals are forecast to grow over the next few years, even an additional 3% room tax will slow the rate of tourism growth but not reduce visitor arrivals. Revenues from a transient accommodations tax will be offset somewhat by reduced visitor spending on other goods and services. The net revenue effect to the state will still be approximately $7 million per 1% additional tax.

The Commission acknowledges that a differential tax on transient accommodations may appear to discriminate against the hotel industry. However, since the demand for hotel and condominium rooms is less responsive to price changes than that for many other goods and services in Hawaii, a tax on rooms serves to export a greater proportion of Hawaii's taxes without creating economic distortions or inefficiencies.

The Commission strongly recommends that revenues from a room tax not be earmarked to specific spending programs. Doing so will reduce the extent to which such a tax could be used to support the tax cuts advocated in the Commission's other recommendations.

Revenue Implications: An additional 3% excise tax on hotel and condominium rentals would have yielded $21 million in 1984. Earmarking any of this revenue to new expenditures would reduce the extent to which the new revenues could be used to make equity and efficiency adjustments in the present tax system.

Recommendation #16:

As an alternative to the hotel room tax, the Legislature should consider raising the general excise tax and to refund the proportion not exported to resident taxpayers through enlarged excise tax credits. Again, the net new revenues should not be earmarked.

Rationale and Justification: A hotel room tax in excess of the general tax levied on gross receipts of all business may be regarded by some as discriminatory and "anti-visitor." A uniform higher general excise tax, or its successor, would not be subject to this criticism.

Since approximately 32% of the general excise tax is exported (paid by nonresidents), increased tax exporting occurs when this tax is increased across the board. By using the revenues to provide tax relief to residents there is a shift of taxes from residents to visitors. Care must be taken to increase the resident tax relief as revenues grow otherwise the intent of the policy is undermined. While this approach is not as direct as taxing rooms at higher rates, it does avoid the perception that the state is singling-out the tourist industry for higher taxes.

Again, the Commission strongly recommends that the net new revenues generated by this proposal not be earmarked for spending on specific programs.

Revenue Implications: For example, increasing the present 4% general excise tax to 4.5% would have generated an additional $75 million in 1984. Approximately 32% of this would have been exported. Thus, the rebate to Hawaii residents would have to be $51 million and net new revenue to the State would be $24 million. If any part of this revenue is earmarked to increased expenditures, the amount available for equity and efficiency adjustments of other taxes is reduced.

RECOMMENDATIONS RELATED TO THE INDIVIDUAL INCOME TAX

Equity Considerations

Recommendation #17:

The Hawaii State individual income tax should be adjusted to take into account the effects of inflation since the income tax was last adjusted. The rate brackets and standard deduction should be enlarged. However, formula or automatic tax indexation should be avoided. The state standard deduction should be made equal to that provided by the Federal government: $2300 for a single taxpayer or a single head of household, $3400 for those married filing a joint return, and $1700 for married filing separately. The tax brackets in effect since 1966 should be doubled. It is further recommended that these income tax reductions should be phased in over a four-year period.

Rationale and Justification: Some countries and states have adjusted or responded to income tax distortions introduced by inflation by indexing their income tax to one degree or another. This indexing has occurred in either an ad hoc or automatic manner. Automatic indexing such as is achieved by writing formulas into the statutes should be avoided in view of the difficulties of other states in selecting the right form and extent of indexing.

Since Hawaii has not utilized either form of indexing it is appropriate that the Hawaii income tax be indexed in an ad hoc manner. Moreover, in view of the other changes in the Hawaii tax system being recommended, excessive and/or unpredictable changes in tax system elasticity should be avoided.

Since inflation has changed and distorted the nature and effects of the Hawaii income tax as it was last enacted, it is necessary to restore some of the progressivity, elasticity, and equity features afforded by the system when prices were lower. This can be done by a one-time increase in the dollar amount of the brackets and the standard deduction, or zero bracket amounts. No change is recommended in the level of the personal exemption since this matches the present Federal level and has been periodically adjusted to keep up with inflation.

Figure 1 shows that tax rate structure for joint returns that existed in 1966 and 1984 and what the rates would have been had the 1966 income tax been fully adjusted for inflation. Clearly, legislated changes did not keep up with inflation, and, as a result, larger proportions of Hawaii's income tax filers were pushed into the higher marginal tax brackets. Table 3 shows that in 1966, 90.3% of taxable income accrued to people with adjusted gross income below $30,000. By 1982 this had dropped to 48.1%.

FIGURE 1: MARGINAL TAX RATE COMPARISONS FOR JOINT RETURN, FAMILY OF FOUR

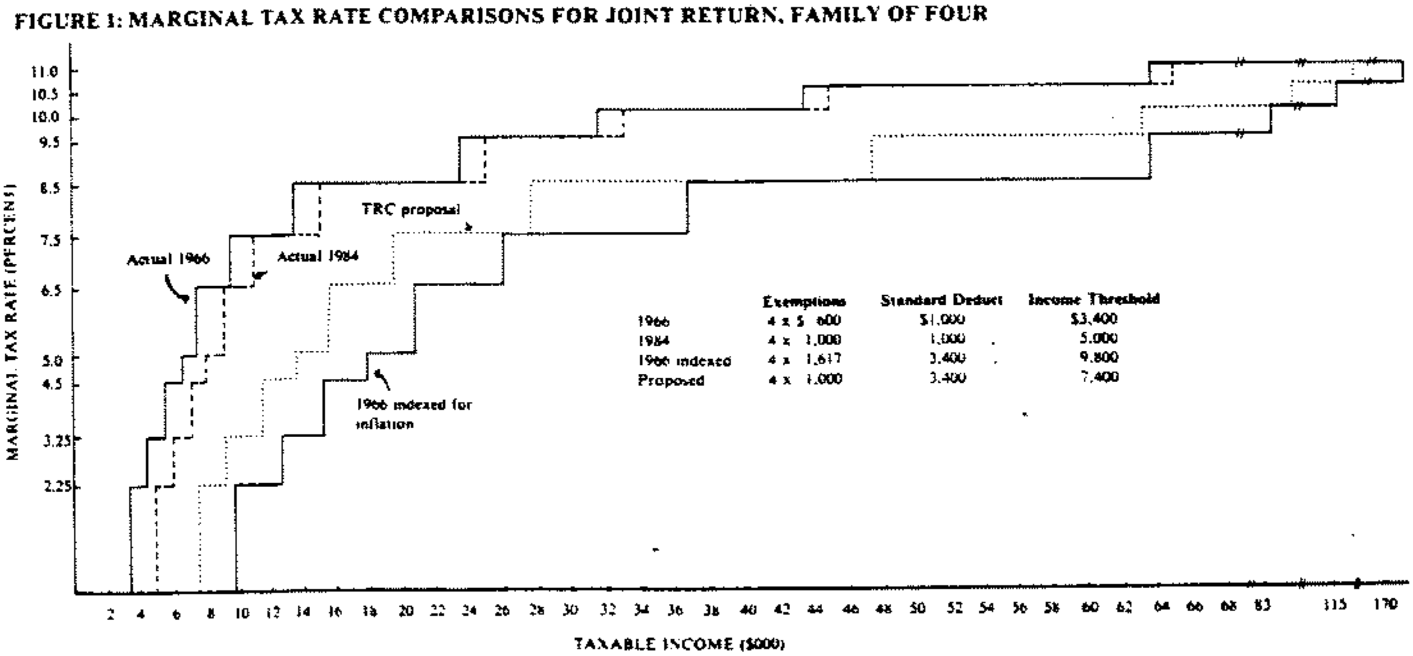

TABLE 3: DISTRIBUTION OF HAWAII TAXABLE INCOME, 1966 and 1982

Adjusted Gross Income Class	Percent of Net Taxable Income 1966	1982
$ 0 - 9,999	40.5%	7.7%
10,000 - 29,999	49.8	40.4
30,000 - 49,999	5.0	31.9
50,000 - 99,999	2.9	15.0
over 99,999	1.8	5.0
	100.0%	100.0%

Source: Hawaii Department of Taxation, **Hawaii Income Tax Patterns, Individuals,** 1966 and 1982.

The Commission's recommendation to adjust the standard deduction and widen the tax brackets will, to a large extent, offset the adverse effects of inflation. As an example, the proposed rate structure for a joint return is illustrated in Figure 1 and the brackets are presented in Table 4, exclusive of the "zero-bracket amount."

TABLE 4: TAX RATE SCHEDULE - MARRIED TAXPAYERS FILING JOINT RETURNS, PROPOSED COMPARED TO 1966

1966 Brackets	Marginal Rate	Proposed Brackets
0 - 1,000	2.25	0 - 2,000
1,000 - 2,000	3.25	2,000 - 4,000
2,000 - 3,000	4.50	4,000 - 6,000
3,000 - 4,000	5.00	6,000 - 8,000
4,000 - 6,000	6.50	8,000 - 12,000
6,000 - 10,000	7.50	12,000 - 20,000
10,000 - 20,000	8.50	20,000 - 40,000
20,000 - 28,000	9.50	40,000 - 56,000
28,000 - 40,000	10.00	56,000 - 80,000
40,000 - 60,000	10.50	80,000 - 120,000
over 60,000	11.00	over 120,000

Since the standard deduction is used most extensively by low-income taxpayers, increasing its value provides the largest benefit to those people. In addition, the bracket widening will also have the largest impact on low- and middle-income filers. Table 5 shows that the income tax relief is largest for lower income taxpayers and smallest for high-income filers.

TABLE 5: TAX LIABILITY FOR FAMILY OF FOUR UNDER PRESENT AND PROPOSED INCOME TAX STRUCTURES, 1984

LOW-INCOME FAMILY:	Present	Proposed	% Change
Adjusted Gross Income	$ 7,438	$ 7,438	
Personal Exemption	4,000	4,000	
Standard or Itemized Deduction	1,228	3,400*	176.9
Taxable Income	2,210	38	-98.3
Income Tax	64	1	-98.4
MIDDLE-INCOME FAMILY:			
Adjusted Gross Income	44,429	44,429	
Personal Exemption	4,000	4,000	
Standard or Itemized Deduction	11,436	11,436	
Taxable Income	28,993	28,993	
Income Tax	2,288	1,924	-15.9
HIGH-INCOME FAMILY:			
Adjusted Gross Income	178,004	178,004	
Personal Exemption	4,000	4,000	
Standard or Itemized Deduction	48,393	48,393	
Taxable Income	125,611	125,611	
Income Tax	12,707	11,597	- 8.7

*Standard deduction.

Source: Tax Review Commission calculations based on Hawaii Department of Taxation profiles of taxpayers.

Revenue Implications: If both the suggested standard deduction increases and the bracket widening had been enacted in entirety in 1984, the revenue loss would have been $73 million. Phasing-in the proposed changes reduces the immediate revenue loss. A $50 million reduction of income tax revenues can be achieved by partially adjusting the standard deduction and/or tax brackets. This maintains the revenue neutrality of the Commission's recommendations.

Recommendation #18:

To enhance the equity of the state individual income tax, the base of the state income tax should be brought into closer conformity with that of the Federal individual income tax. This would help to narrow the growing gap between taxable income and actual economic income received by individuals, thus reversing base erosion.

At a minimum the following types of personal income should be restored to the state individual income tax base consistent with Federal tax treatment: portions of pension income and part of social security benefits of high-income taxpayers. To protect elderly taxpayers from taxes on subsistence income, a double standard deduction should be provided when a single filer reaches age 65 or when either filer reaches 65 for a joint return.

Rationale and Justification: Erosion of the individual income tax base leads to various horizontal and vertical equity problems. Households with the same real or economic income may have widely disparate state income tax liabilities if a larger portion of household economic income is recognized in one case than in the other. Moreover, it is difficult to achieve progressivity if higher income groups are able to shelter or divert economic income into nontaxable forms. Any erosion of the individual tax base means that a higher tax rate has to be applied to the taxable income of all those households that are actually subject to the state individual income tax in order to raise the same amount of revenue. The higher marginal tax rates required by the base erosion may have adverse effects on work effort.

While it is not obvious that the Federal individual income tax base is as broad and free of questionable tax preferences, tax expenditures, and "loopholes" as it should be, the state should aim for the same degree of broadness of tax base achieved by the Federal government as a minimum tax policy goal.

The Federal income tax treatment of social security benefits is to tax one-half of the benefits if the filer has achieved a specific income threshold. That threshold is $32,000 for those filing a joint return and $25,000 for those filing a single return. Under federal statutes, pension and annuity benefits are taxable if this income was not previously taxed. Thus pensions paid from accumulated interest and the employers' contribution are taxable. National averages indicate that approximately 88% of pension income is taxable under the federal standard.

The Commission's recommendation reflects its philosophy that income is the appropriate measure of ability to pay taxes, regardless of the source of such income, while at the same time offering protection of subsistence income from taxation. It is inequitable that an elderly taxpayer who relies on interest and property income should be subject to the income tax while another with equal pension income should escape income taxes entirely.

In addition, by providing an across-the-board exemption for all pension income, benefit is extended to not only the low-income elderly but also high-income retirees. As is demonstrated in Table 6, 62.5% of pension and annuity income accrues to taxpayers who have Federal adjusted gross income of over $20,000.

TABLE 6: PENSION AND ANNUITY INCOME DISTRIBUTION, U.S. 1982

Size of Adjusted Gross Income	Amount ($ million)	% of Total Amount	Cumulative %
All returns, total	76,677	100.0	-
under 5,000	2,222	2.9	2.9
5,000 - 10,000	7,379	9.6	12.5
10,000 - 15,000	9,463	12.4	24.9
15,000 - 20,000	9,637	12.6	37.5
20,000 - 75,000	43,866	57.2	94.7
75,000 or over	4,110	5.3	100.0
Mean amount	$ 7,396		

Source: Internal Revenue Service, **Statistics of Income 1982,** October 1984, p. 48.

The combined effect of this recommendation and Recommendation #17 lowering tax rates will be to provide substantial income tax relief to many low-to-middle income elderly. The present double exemptions provided by the state combined with the larger and proposed double standard deductions will insure that for a couple who are both at least 65 years old the first $10,800 of income is not taxed (two standard deductions of $3,400 each and four exemptions of $1,000 each). For a single taxpayer 65 years old this threshold is $6,600 (two standard deductions of $2,300 each and two exemptions of $1,000).

Table 7 shows that with these provisions a middle-income retiree who relies on interest and property earnings will not be taxed on social security benefits and will experience a tax reduction on other income. The retiree with only pension income will not be subject to tax on social security income but will be taxed on pension benefits. This tax increase is not large and brings equity to the tax structure in that pension recipients are treated similarly to all other taxpayers.

Revenue Implications: At the proposed new tax rates, if all pension income had been taxed in conformity with Federal treatment, income tax revenues would have increased by $17 million in 1984. Taxing Social Security benefits consistent with Federal taxability standards would have yielded an additional $3 million in 1984.

TABLE 7: EFFECTS OF PROPOSED INCOME TAX CHANGES ON HYPOTHETICAL ELDERLY COUPLES

Elderly retired couple earning average social security benefits, interest, and other income:

	Present Law	Proposed Law
Income		
Pension	$ 0	$ 0
Social Security	10,776	10,776*
Interest and other inc	15,000	15,000
Adjusted Gross Income	15,000	15,000
Standard Deduction	1,000	6,800
Exemptions	4,000	4,000
Taxable Income	10,000	4,200
Income Tax	582	119

Elderly retired couple earning average social security benefits and pension income:

Income		
Pension	15,000	15,000
Social Security	10,776	10,776*
Interest and other inc	0	0
Adjusted Gross Income	0	15,000
Standard Deduction	1,000	6,800
Exemptions	4,000	4,000
Taxable Income	0	4,200
Income Tax	0	119

*Not included in adjusted gross income since joint return gross income is less than $32,000.

Recommendation #19:

To provide equity in the State's income tax, the conformity between the Hawaii individual income tax and the Federal individual income tax should be further enhanced by the adoption of the Alternative Minimum Income Tax for state purposes. The state minimum tax should be modeled after the Federal Alternative Minimum Tax.

Rationale and Justification: The Federal government has determined that the fair application of the Federal individual income tax to higher income groups requires the use of the Alternative Minimum Tax. This alternative tax becomes applicable to any high income individual taxpayer who would otherwise pay only a small income tax, if any at all, as the result of the combined or cumulative effects of several tax shelters or other tax minimization provisions in the Federal individual income tax code. Given the policy of generally conforming the state individual income tax code to the Federal code, these minimization provisions are available to higher income taxpayers in Hawaii without the state government having the same safeguard against perceived excessive use available to the Federal government, i.e., the Alternative Minimum Tax.

Adoption or adaptation of the Alternative Minimum Tax by Hawaii is consistent with present state tax policy since it would bring about a closer conformity of Hawaii state and federal income tax structures and/or policies. If this logical extension of the state income tax was not utilized, equity considerations would require that each of the tax expenditures or tax preferences in the state income tax code would have to be reexamined provision by provision at the state level. This would not be as urgent once the Alternative Minimum Tax is used to mitigate or limit abuses or excessive use.

The Commission suggests that the Legislature review for possible adoption a state corporate minimum income tax modelled after that of the Federal government. However, given the uncertain status of Federal corporate income taxation, a state corporate minimum tax should await the resolution of the Federal debate.

Revenue Implications: Increased income tax revenues of $2 million in 1984 are estimated had rates proportional to that of the Federal Alternative Minimum Tax been used.

Recommendation #20:

To reduce the complexity of the individual income tax the following special interest credits should be allowed to sunset as scheduled or be amended to sunset by 1987 unless specifically extended by the Legislature:

—credit to discourage sales of dangerous items
—credit for regulated investment companies
—solar energy device tax credit (scheduled to sunset Dec. 1985)
—heat pump tax credit (scheduled to sunset Dec. 1985)
—heater insulation tax credit (scheduled to sunset Dec. 1985)
—credit for child care expenses
—child passenger restraint system tax credit
—tax credit for fuel taxes paid by commercial fishers

In addition, the Commission recommends that no further "check-offs", such as that for the Hawaii Election Campaign Fund, be added to the current income tax.

Rationale and Justification: As noted in Recommendation #2, special tax preferences increase the complexity of the tax structure and place added administrative burdens on the Tax Department.

Alternate energy and energy conservation devices are economically justifiable without the state tax credits. The credit merely reduces the payback period on these investments. Since child passenger restraint devices are currently required by law, the credit has no impact on use of these devices other than to lower the cost of obeying the law. The rationale of Recommendations #2 and #14 is applicable here as well. The Legislature should evaluate these preferences taking into consideration that the primary purpose of a tax system is to equitably collect revenues to run the State. Attempting to promote economic and social goals may be better achieved through direct expenditure programs rather than tax preferences.

Revenue Implications: The following revenue losses are estimated for 1984:

—child care = $2,400,000
—solar energy devices = $2,200,000
—heat pump = $228,000
—heater insulation = $20,000
—child passenger restraint = $70,000

The other credits listed have negligible revenue implications due to lack of use.

Since the Commission is recommending only legislative review of these credits, no specific revenue gain is presumed from this recommendation.

RECOMMENDATIONS RELATED TO THE CORPORATE NET INCOME TAX

Equity Considerations

Recommendation #21:

The Hawaii corporate income tax brackets should be adjusted to add a greater degree of progressivity to this tax and to offset the effects of inflation on the bracket structure. The table shows the recommended rates and brackets.

PROPOSED CORPORATE NET INCOME TAX RATES

Taxable Income	Marginal Tax Rate
under $25,000	2.0%
$ 25,000 - 100,000	5.0
$100,000 and over	7.0

Rationale and Justification: The present Hawaii corporate income tax rates are 5.85% on taxable income less than or equal to $25,000 and 6.435% on amounts above that. This $25,000 cut-off has been in effect since 1958. The same real value (after inflation) would require the threshold be set at $85,000.

On the other hand, accelerated depreciation, safe-harbor provisions, and carry-back and forward losses have all contributed to more than offsetting the "bracket creep."

The table above shows how the rate structure can be adjusted to increase the progressivity of the tax while maintaining revenues. This requires higher rates at the upper levels of net income to afford lower rates at the smaller income levels. It should be noted that the Federal income tax offset reduces the effective tax rate increase of the higher income corporations just as it reduces the tax relief felt by lower income corporations.

Revenue Implications: There will be no change in current revenues; however the system is made more elastic by the greater progressivity of the structure.

Revenue Adequacy of the Corporate Income Tax

Recommendation #22:

Hawaii should partially "de-couple" from the federal accelerated depreciation rules (ACRS) by substituting pre-ACRS provisions for real property but not for personal property for purposes of determining both individual as well as corporate taxable income.

Rationale and Justification: The purpose of depreciation is to allow investors to deduct the cost of using capital. Accelerated depreciation rules (sum of the years digits, double declining balance) were adopted by the Federal government to provide an incentive for economic growth through higher profitability of investments. The recently enacted accelerated cost recovery system (ACRS) went even further in part because inflation had increased the replacement cost of capital.

While it is a Federal goal to stimulate economic activity with broadly targeted tax preferences, the primary goal of state taxation is to generate revenues to fund state services. State conformity to Federal ACRS has contributed to the long-term decline of Hawaii corporate income tax revenue: Partial de-coupling would mitigate that decline and will nc have significant adverse effects on rates of return for Hawa investments.

Eighteen of 45 states that tax corporate income have already de-coupled in full or in part from ACRS.

Complete "de-coupling" from Federal rules would preser an undue bookkeeping hardship to taxpayers especially sm businesses. Further, accelerated depreciation for personal property changes the timing of taxes but not the eventual total tax liability since the deductions are eventually "recaptured" if the property is sold for more than its depreciated value. On the other hand, real property is allowed an 18 year useful life under ACRS. This is unrealistically low, and since income from such property is taxed at preferential capital gains rates, ACRS provides opportunities to substantially reduce taxes. For these reasc the Commission recommends returning to pre-ACRS depreciation rules for real property only.

Revenue Implications: Over an extended period of [illegible] th loss due to ACRS increases as a larger proportion of the capital base is subject to the accelerated depreciation rules. The Commission estimates that this loss will rise to $20 million per year by 1986 for both individual and corporate taxes combined. Partial de-coupling would offset at least $ million of this loss.

Corporate Income Tax Administration

Recommendation #23:

Given the uncertainty regarding the Federal position on worldwide unitary taxation, the State should not adopt su a policy with regard to taxation of multi-state companies operating within several states, including Hawaii. The present policy of allowing either domestic apportionment policy or separate accounting is appropriate. The separate accounting approach for corporations operating in differe countries will have to be continued with regard to their foreign operations.

Rationale and Justification: The use of domestic ("waters edge") apportionment taxation is accepted and widely use by other states on the mainland. Given the highly politici and unsettled nature of the current worldwide unitary taxation controversy, it would be premature to shift state corporate taxation policy in that direction. The appropria solution would appear to be a strengthening of the presen option to allow separate accounting or domestic apportionment by devoting considerably more audi resources to it.

Revenue Implications: Since this recommendation makes changes, no revenue effect is anticipated.

RECOMMENDATIONS RELATED TO THE PUBLIC SERVICE COMPANY TAX

Revenue Adequacy

Recommendation #24:

Public service companies should be subject to the general excise tax rather than to the in-lieu public service company tax.

The State Constitution should be amended to allow county governments to assess and tax at appropriate property tax rates the real property of public service companies in their jurisdiction.

Rationale and Justification: This change follows from the general Commission recommendation to reduce the complexity of the tax structure and to accordingly rationalize the General Excise Tax. Whatever rationale the public service in-lieu tax might have once had has been lost over the years. No one was able to provide the Commission with a defense of the present exemption of utility property from county property taxes. By applying a uniform general excise tax rate to the gross revenue of the public service companies these firms will be treated as other taxpayers and the administration of the Hawaii gross revenue taxes will be made more uniform.

Another basis for the recommendation is that counties should be permitted to extend and rationalize the property tax which is correctly the primary source of tax revenue at the local level of government in Hawaii. The property tax is still relatively underutilized by local governments in Hawaii as evidenced by various tax effort ratios. However, it is still good public policy to expand the property tax base available to all the counties so that further revenue needs can be satisfied with minimal increases in property tax rates.

For those counties that choose to tax the property of public service companies, this recommendation implies the property tax should displace the Public Utility Franchise Tax (Chapter 240, SLH). However, no change is suggested in the Public Utility Fee (Chapter 269, SLH).

Revenue Implications: In 1984, a 4% excise tax instead of the variable rate public service company tax would have reduced revenues by roughly $4 million.

In addition, some intermediate purchases by public service companies now taxed at 4% under the present excise tax would qualify for taxation at the lower rate of 1/2% if these companies are taxed under the general excise tax. The resulting revenue loss would be $2 million in 1984.

Some of the receipts of public service companies with interstate activities may be excluded from the tax base by virtue of the interstate commerce clause of the U.S. Constitution. The estimated lost revenue collections from this could have been $5 million in 1984.

The total revenue loss associated with this recommendation is thus $11 million. Some of this revenue would be recovered through the county property tax (which would not accrue to the state).

Recommendation #25:

The State should establish a mechanism (e.g., franchise tax) to insure that commercial airlines (interisland, domestic, and international) pay directly for the privilege of doing business in Hawaii and contribute to the general fund.

Rationale and Justification: As is the case for all businesses, airlines pay taxes indirectly through imbedded taxes on their purchases as well as through the payrolls and expenditures of their employees. However, a recent U.S. Supreme Court decision precludes Hawaii from directly taxing the gross receipts of airlines. This means that unlike all other businesses operating in the state, airlines presently pay no direct tax for the privilege of doing business and thus do not directly contribute to the general fund. The U.S. law which does not allow taxation of gross receipts does, however, permit other forms of taxation, including property taxes and franchise taxes not based on gross receipts.

Revenue Implications: Unknown increase in revenues.

RECOMMENDATIONS RELATED TO OTHER REVENUE SOURCES

Fuel and Liquor Taxes

Recommendation #26:

The Commission recommends that all excise taxes be imposed on an ad valorem basis rather than on a specific amount per unit. This pertains specifically to the wholesale liquor tax but it is also applicable to the fuel tax.

Rationale and Justification: The present difficulties of the Highway Special Fund are at root traceable to the use of a constant, specific amount per gallon tax in a period of inflation. While inflation pushed up the expenditure requirements of the Highway Special Fund, income was relatively static since the tax revenue did not rise with inflation. Aside from the obvious financial problems, this tax feature has also given rise to serious equity and efficiency problems. Contrary to original tax policy, since the users of the highways are not paying their own way, general fund resources must be diverted from other programs that do not lend themselves to self-finance through user charges or benefit related taxes.

These same equity and efficiency problems arise even when the tax goes into the general fund, as in the case of the liquor wholesale tax. If a fixed, per unit tax rate were used, the users of that product and/or the industry itself would make ever smaller relative contributions to the state treasury as inflation proceeded, even at recent reduced rates. Such a revenue source would not keep up with inflation, and other state taxes would have to be raised to replace the revenue shortfall. These tax policy considerations argue against shifting any present ad valorem tax to a specific per unit basis and in favor of replacing the per unit fuel tax with an ad valorem levy.

Revenue Implications: No change in current revenues. However, future revenue shortfalls would be avoided by increased use of ad valorem taxes.

Taxation of Insurance Companies and Financial Institutions

Recommendation #27:

Firms presently taxed under the insurance premium tax should be required to pay the general excise tax on rentals and other business receipts.

Rationale and Justification: At the present time, insurance companies pay no excise tax on income other than that received from insurance premiums paid in Hawaii. Thus, an insurance company that owns a building, leases space and collects lease rents, pays no tax on the rental income. Any other firm in the same position would pay the 4% general excise tax on rental income. Requiring insurance companies to pay the tax on rental and other income would remove the inequity.

Revenue Implications: The revenue effect cannot be estimated because there is little data available on the receipts of insurance companies, specifically non-domestic (non-Hawaii) firms.

Recommendation #28:

The Commission feels it is appropriate to integrate financial institutions and insurance companies with other business in Hawaii under a single tax code instead of the current in-lieu taxes. However, the complexities of such a change suggest that it should be evaluated in detail, perhaps by a subsequent Commission, before action is taken.

Rationale and Justification: The reason for having separate in-lieu taxes may have lapsed. Insurance companies and financial institutions are participating in activities that go beyond their original activities.

The ramifications of the change suggested above are of such magnitude that careful study is required before changes are made, thus the need for more analysis.

Revenue Implications: This recommendation has no revenue effects.

State Lottery

Recommendation #29:

The State should adopt a lottery to replace revenu due to recommended equity and efficiency adjustment.

Rationale and Justification: Currently, 18 states have established lotteries which generate from 0.2% to 4.9% of general revenues. The gross receipts a lottery can generate depend on numerous factors including the population base the variety of games offered, and the extent to which the games are marketed. Net receipts (the revenues to the state depend on state law and/or practice. For example, Washington State requires that at least 40% of gross receip be allocated to the state and at least 45% be awarded in prizes. National trends indicate that the larger the gross receipts, the higher the proportion that can be retained by the state.

There are three types of games under the general headin of "lotteries." One is the so-called "numbers" games where a participant selects a number which is entered into a computer. The winning number is selected daily (or weekly A second class of games comes under the title of "lotteries wherein a participant purchases a ticket. The winnings can be determined instantaneously (by rubbing off a covering substance to reveal the prize) or by drawings held weekly, monthly or at a time specified at the end of the game. The third form of state lottery is a "lotto." Here a person select a number which is entered in a computer. The winning number is randomly generated periodically and the continues until the random number matches one s... a participant.

Prizes from a lottery usually cost the state less than wha is advertised for a game since they are paid out over time. Thus a $1 million prize may be paid out over 20 years at $50,000 per year. At a 10% interest rate this could be financed by a $470,000 annuity.

Those who favor a lottery in Hawaii assert that it is a painless way to generate new revenues and that it can be exported to tourists. Since participants act voluntarily to purchase lottery tickets there is no forced payment to the government (as would be the case for taxes) and thus "no pain." Further, since tourists form a large part of the economic base, their participation increases the extent to which they underwrite the state treasury.

Opponents of the lottery claim that the adverse aspects a lottery outweigh the revenue gains. In spite of voluntary participation, all studies indicate poorer people are more likely to purchase lottery tickets. Thus the revenue inciden is quite regressive. Tourists make up only 10% of the de facto population. Since tourists already pay 20% of Hawa taxes they would have to participate at twice the rate of local residents if the lottery is to be exported in the same porportion as Hawaii's taxes.

Revenue Implications: A Hawaii lottery could have added about $20 million in 1984 based on national patterns.

MISCELLANEOUS RECOMMENDATIONS

Recommendation #30:

The State tax structure should be carefully monitored to detect any long-term declines in its responsiveness to real or inflationary economic growth.

Rationale and Justification: The empirical studies conducted by the Commission indicate that the long-run elasticity of the tax structure is lower now than was calculated in earlier years. At the present time, the elasticity coefficient at the aggregate tax system is approximately 1.1. That is to say, a 10% increase in state personal income will, in the long-run, result in an 11% increase in tax revenues. This elasticity value is lower than was measured in previous studies but is adequate for the long-term spending needs of the state. However, a decline in the elasticity and the resulting loss in revenue responsiveness could place the state in fiscal stress. While some of the income tax recommendations made by the Commission increase the elasticity of that tax, the responsiveness of the aggregate revenue structure should be monitored to make certain that its long-run revenue adequacy can be maintained.

Revenue Implications: No impact on current revenues is anticipated.

Recommendation #31:

In addition to its current statistical studies of the individual and corporate income taxes, the Tax Department should conduct annual statistical analyses of general excise tax data.

Rationale and Justification: At present the Tax Department conducts annual statistical studies of the individual income tax and biennial analyses of the corporate income tax. Both of these are extremely useful for monitoring the respective tax structures as well as making policy judgments.

Prior to work done at the request of the Tax Review Commission there was little data available about the general excise tax other than aggregate information. It would be helpful if the Tax Department could, on a periodic basis, provide analysis as to the size distribution of general excise taxpayers, the number of separate activities general excise taxpayers report, the relationship between type of general excise tax activity and levels of taxes, etc.

It is difficult to make informed policy judgments without adequate data. Given its importance to the state, the general excise tax, or its successors, should be subject to at least as much ongoing scrutiny as the income tax.

Revenue Implications: This recommendation results in no change in revenues.

APPENDIX

A. Recommendations Scorecard

Key: + => better ; - => worse ; 0 => no change

Recom. #	Thrust	Equity	Revenue Effect	Tax Exporting	Tax Pyramiding	Busi Imp
Overall						
1	Digressive incidence	+	-			
2	Limit specific preferences	+	+			
3	Rainy day fund		0			
4	Special funds self supporting		15			
5	Exporting taxes		+	+		
6	Business taxes		0			
7	Uniform preferences		0			+/
General Excise Tax						
8	Credits to reduce regress	+				
9	Adjust credits for inflation	+	- 7			
10	No change in GET					
11	Exempt some inter-affiliate	+	-	-	+	+
12	Gross up some receipts	+	0	-	+	+
13	Exempt certain exports		-14	-		+
14	Review preferences	+	+			+/
15	Transient accommodations tax	+	21*	+		-
16	Alternative to room tax	+	**	+		
Individual Income Tax						
17	Adjust for inflation	+	-50			
18	Base broadening	+	20			
19	State minimum tax	+	2			
20	Review credits	+	+			
Corporate Income Tax						
21	Adjust brackets	+	0	-		+
22	Partially decouple from ACRS	+	2	+		-
23	Domestic apportionment	+	0	-		
Public Service Tax						
24	Move PSC under excise tax		-11	-		+
25	Tax airlines		+	+		-
Fuel and Liquor Tax						
26	Ad valorem taxation		0			
Insurance and Financial Inst Tax						
27	Tax other incomes		+			-
28	Study combining with excise tax		+			
Lottery						
29	Adopt	-	20			
Miscellaneous						
30	Monitor elasticity of tax system					
31	Study excise tax regularly					
TOTAL REVENUE EFFECT			- 2			

Notes:

* Assumes no earmarking to new spending

** The tax rate and resident refund can be structured to yield net revenues equal to the room tax

B. Tax Review Commission

The present Commission was appointed by Governor George Ariyoshi in the summer of 1983 and confirmed by the Senate in April 1984. The Commission is chaired by Hideto Kono, former Director of the Department of Planning and Economic Development, and consists of Christopher G. Pablo (Vice Chairman), tax attorney and certified public accountant, Thomas M. Foley, attorney specializing in tax matters, Carole Ann Gibbs, Vice President, Hawaiian Trust Company, Albert S. Nishimura, Senior Vice President of First Hawaiian Bank, Russell K. Okata, Executive Director of the Hawaii Government Employees Association, and Richard Pollock, professor of economics, University of Hawaii.

The Commission's staff is directed by Dr. Jack P. Suyderhoud, professor in the College of Business Administration, University of Hawaii. Drs. Thomas A. Loudat and Prahlad Kasturi are research analysts. Amber A. L. Ling is the word processor operator and Laurie S. Matsuda is the secretary.

C. Technical Advisory Board

To obtain a broad spectrum of technical input the Commission solicited the advice of a group of local and national state-local tax experts. The individuals listed below volunteered their services. They reacted to and critiqued the Commission's research agenda, staff working papers, and/or consultants' reports. The members of the Advisory Board are:

George Freitas, Retired Director of Taxation, State of Hawaii.
Steven D. Gold, Director, State-Local Finance Project, National Conference of State Legislatures, Denver.
Thomas K. Hitch, Retired Senior Vice President and Economist, First Hawaiian Bank.
Robert M. Kamins, Attorney and Emeritus Professor of Economics, University of Hawaii.
Will S. Myers, Director of Economic Analysis, National Education Association, Washington, D.C.
James R. Nunns, Director of Tax Research and Statistics, Department of Revenue, State of New Mexico.
F. John Shannon, Assistant Director, U.S. Advisory Commission on Intergovernmental Relations, Washington, D.C.
Jon David Vasche, Senior Economist, Legislative Analyst's Office, State of California.

D. Consultants' Reports

"Impact of Hawaii's Taxes: A Look at Taxpayer Burden and Equity," Donald Phares, University of Missouri, St. Louis.
"The Hawaii Income Tax: A Case Study of Issues of Tax Base Conformity," William R. Singleton and Janet J. Singleton, Western Washington University.
"An Examination of Horizontal Inequities and Possible Structural Anomalies of the Hawaii General Excise Tax," John L. Mikesell and C. Kurt Zorn, Indiana University.
"Evaluation of Tax Pyramiding and Exporting Through Means of an Input-Output Model," Richard L. Bowen and PingSun Leung, University of Hawaii.
"Detailed Analysis of Tax Exporting," R. Bruce Billings, University of Arizona.
"Detailed Analysis of Tax Pyramiding," R. Bruce Billings, University of Arizona.
"Study Report on the Elasticity of General Fund Taxes," D. Ward Mardfin, Hawaii Loa College.
"Fiscal Projections for the State of Hawaii," Roy Bahl and Dana Weist, Syracuse University.
"Business Taxation in Hawaii: A Comparative Analysis with Policy Simulations," James A. Papke, Purdue University.
"The Incidence and Exportability of Hotel Occupancy and Other Tourist Taxes in Hawaii," Edwin Fujii, Mohammed Khaled, James Mak, University of Hawaii.

A copy of each consulting report is on file at the Hawaii Document Center of the State Library, Honolulu, and at the Hawaiian/Pacific Collection of Hamilton Library, University of Hawaii, Manoa.

E. Staff Working Papers

Working Paper #	Title
1	"Hawaii's Changing Economy: 1960-1980"
2	"A Comparative Review of Hawaii's Fiscal System: 1965-1981"
3	"Hawaii Government Revenue Trends"
4	"Hawaii Government Expenditure Trends"
5	"Inflation and Hawaii Income Taxes"
6	"Judgmental Issues Related to Tax Equity: Tax Incidence and Funding Methods"
7	"A Primer on Pyramiding"
8	"Revenue Diversification: User Charges, Gambling Taxes, and Local Non-Property Taxes"
9	"State Tax Preferences to Stimulate Investment"
10	"Ad Valorem Versus Per Unit Tax on Liquor"
11	"Special Issues of the Hawaii Income Tax"
12	"Results of the Transient Accommodations Tax Survey"
13	"Results of a Survey of Non-Profit Organizations on Oahu"

A copy of each working paper is on file at the Hawaii Document Center of the State Library, Honolulu, and at the Hawaiian/Pacific Collection of Hamilton Library, University of Hawaii, Manoa.