



EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

June 27, 2016

Maria E. Zielinski
Department of Taxation
830 Punchbowl Street, Room 221
Honolulu, Hawai'i 96813

Dear Director Zielinski:

It was my pleasure to appoint seven members to the 2015-2017 Tax Review Commission (TRC) during the 2016 Legislative Session. I commend these public-minded community members for their commitment to help the State of Hawai'i re-evaluate its tax structure, with a goal of providing fairness, equity, and uniformity for all Hawai'i taxpayers.

While I know that the individual Tax Review Commissioners will bring their unique backgrounds, experiences and perspectives to their task at hand, I would like to highlight some issues that I hope will be examined in the fulfillment of their duties. Specifically, I request that they consider the following topics:

- **Regressive Nature of Hawai'i's Individual Income Tax Structure**

Senate Concurrent Resolution 59, 2016, asks the TRC to study whether Hawai'i should conform to federal standard deduction and personal exemption and to determine the revenue cost to the state. However, I ask the Commission to also study the individual income tax rates and brackets to recoup some of the cost of conforming to the federal personal exemption and standard deduction, as I believe this broader scope of study will aid in finding a practical way to reduce the regressiveness of Hawai'i's individual income tax.

- **Equitable Allocation of the Transient Accommodation Tax**

The provision of public services is mandated by law between the state and counties, as is the funding for such duties and responsibilities. I request that the TRC evaluate the proportional division of such duties and responsibilities between the state and counties, and recommend an allocation of the transient

accommodations tax revenues that equitably reflects the duties and responsibilities of the state and counties.

- **Tax Effect of Timeshare versus Hotel Rentals**

Hotels are subject to the Transient Accommodations Tax while timeshares are subject to Transient Occupancy Tax. The tax rates will be the same as of 12/31/16; however, the tax bases differ in a way that encourages investment in timeshares over hotels. Because this shift in investment can have a long-term effect on the state's tourism industry, I ask that the TRC study how the current tax structure affects the state's transient occupancy as well as recommend solutions to address any inequities that may exist.

- **Erosion of Certain Tax Types Due to Inflation**

Certain miscellaneous tax types are eroded by inflation without regular adjustments, such as with the cigarette tax. For other tax types that have not been adjusted regularly, like the taxes on liquor, fuel (including the environmental response tax), vehicle weight, and motor vehicle rentals, inflation causes the effective tax rate to decrease over time. I ask the TRC to evaluate methods to prevent the erosion of the effective tax rate, including changing to an ad valorem tax or indexing the tax rates based on the Consumer Price Index.

Much work lies ahead for the TRC. Thank you for forwarding my recommendations to the TRC for consideration at today's meeting on June 27, 2016.

With warmest regards,



David Y. Ige
Governor, State of Hawai'i